APPENDIX A

UNITED STATES COURT OF APPEALS,
FEDERAL CIRCUIT.

Nos. 2008-1485, 2008-1487, 2008-1495.

LUCENT TECHNOLOGIES, INC.,
Plaintiff/Counterclaim Defendant-Cross Appellant,

and

LUCENT TECHNOLOGIES GUARDIAN I LLC,
Counterclaim Defendant,

and

MULTIMEDIA PATENT TRUST,
Plaintiff/Counterclaim Defendant,

v.

GATEWAY, INC., GATEWAY COUNTRY STORES LLC,
GATEWAY COMPANIES, INC.,
COWABUNGA ENTERPRISES, INC., and
GATEWAY MANUFACTURING LLC,
Defendants/Counterclaimants,

and

DELL INC.,
Defendant/Counterclaimant,

and

MICROSOFT CORPORATION,
Defendant/Counterclaimant-Appellant.

Sept. 11, 2009.

Before MICHEL, *Chief Judge*, NEWMAN and LOURIE, *Circuit Judges*.

MICHEL, *Chief Judge*.

Microsoft Corporation appeals the denial of post-trial motions concerning a jury verdict that U.S. Patent No. 4,763,356 (the "Day patent") was not invalid and that Microsoft indirectly infringed the Day patent. Microsoft also appeals the $357,693,056.18 jury award to Lucent Technologies, Inc. for Microsoft's infringement of the Day patent. Because the validity and infringement decisions were not contrary to law and supported by substantial evidence, we affirm. Because the damages calculation lacked sufficient evidentiary support, we vacate and remand that portion of the case to the district court for further proceedings.

BACKGROUND

In the 1970s, niche groups of hobbyists, including two teenagers in a Los Altos garage, built personal computers from scratch. In the early to mid-1980s, personal computing gained popularity although still in its infancy. In 1982, a fifteen-year-old high school student created the first public computer virus, spreading it among personal computers via floppy disks, most likely the 5 1/4 -inch version, as the 3 1/2 -inch disk wasn't introduced until a few years later. Commercially available operating systems at the time were mainly text-based with few, if any, graphical interfaces. In 1984, with its now famous "1984" commercial aired during Super Bowl XVIII on Black Sunday, Apple Computer announced the introduction of its Apple Macintosh, the first widely sold personal computer employing a graphical user interface. The following year, Microsoft introduced its own version of a graphical operating system, Windows 1.0.

In December 1986, three computer engineers at AT & T filed a patent application, which eventually issued as the Day patent. The patent is generally directed to a method of entering information into fields on a computer screen without using a keyboard. A user fills in the displayed fields by choosing concurrently displayed, predefined tools adapted to facilitate the inputting of the information in a particular field, wherein the predefined tools include an on-screen graphical keyboard, a menu, and a calculator. The system may display menus of information for filling in a particular field and may also be adapted to communicate with a host computer to obtain the information that is inserted into the fields. In addition, one of the displayed fields can be a bitmapped graphics field, which the user fills in by writing on the touch screen using a stylus.

In 2002, Lucent[1] initiated the present action against Gateway, and Microsoft subsequently intervened. The appeal comes from the consolidated action of three separate infringement suits filed in the Eastern District of Virginia, the District of Delaware, and the Southern District of California. The consolidated action was originally before Senior Judge Rudi Brewster. In October 2007, Judge Brewster severed part of the patent infringement case for transfer to Judge Marilyn Huff. The court severed and transferred for further proceedings all matters relating to the Day patent and U.S. Patent Nos. 4,383,272; 4,958,226; 5,347,295; and 4,439,759.

At trial, Lucent charged infringement by Microsoft of claims 19 and 21, among others, of the Day patent. Lucent alleged indirect infringement of claim 19

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[1] The Day patent is now assigned to Lucent.

based on the sales and use of Microsoft Money, Microsoft Outlook, and Windows Mobile. As to claim 21, Lucent asserted that the use of Windows Mobile infringed. Lucent also alleged infringement by Dell and asserted claims of the other patents as well, but those issues are not on appeal.[2] Microsoft challenged Lucent's infringement contentions, contending among other defenses that the Day patent was invalid for being anticipated or obvious and, even if valid, Microsoft's sales of its products did not infringe the Day patent.

The jury found Microsoft liable on claim 19 as to all three products and on claim 21 as to Windows Mobile but returned a finding of no infringement by Dell as to those two claims. The verdict, without distinguishing among the three products or between inducement and contributory infringement, awarded a single lump-sum against Microsoft for all products involved. The jury awarded $357,693,056.18 for Microsoft's infringement of the Day patent, excluding prejudgment interest.[3]

The parties filed numerous post-trial motions, including Microsoft's renewed motions seeking judgment as a matter of law that the Day patent was anticipated and obvious and motions challenging the jury's finding of infringement and the jury's award of damages. In particular, Microsoft sought judgment as a matter of law that claims 19 and 21 were antic-

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[2] Additionally, on December 15, 2008, Microsoft and Lucent filed a stipulation dismissing all claims between them except those relating to the Day patent.

[3] For U.S. Patent No. 5,347,295, the jury awarded $10,350,000.00 for Microsoft's infringement and $51,000.00 for Dell's infringement.

ipated under 35 U.S.C. § 102(b) and (g) or were obvious under § 103. The district court found substantial evidence in the record to support the jury's determination that the defendants had not proven the Day patent to be invalid. The district court also held that neither judgment as a matter of law nor a new trial was appropriate on the jury's finding that Lucent had proven damages in the amount of approximately $358 million. The district court granted only the post-trial motion setting aside the obviousness verdict concerning U.S. Patent No. 4,958,226 but denied all other post-trial motions, including those for the Day patent. *See Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.Supp.2d 1016 (S.D.Cal.2008). Microsoft has timely appealed the district court's decision. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

ANALYSIS

I. Standards of Review

When reviewing the denial of a motion for judgment as a matter of law ("JMOL") after a jury verdict, we "'appl[y] the same standard of review as that applied by the trial court.'" *Wechsler v. Macke Int'l Trade, Inc.*, 486 F.3d 1286, 1290 (Fed.Cir.2007) (quoting *nCube Corp. v. SeaChange Int'l, Inc.*, 436 F.3d 1317, 1319 (Fed.Cir.2006)). Furthermore, "[t]he grant or denial of a motion for judgment as a matter of law is a procedural issue not unique to patent law, reviewed under the law of the regional circuit in which the appeal from the district court would usually lie." *Summit Tech., Inc. v. Nidek Co.*, 363 F.3d 1219, 1223 (Fed.Cir.2004). In the Ninth Circuit, a district court grants JMOL only "if the evidence, construed in the light most favorable to the nonmoving party, permits only one reasonable conclusion, and that conclusion is contrary to the jury's verdict." *Pavao v.*

Pagay, 307 F.3d 915, 918 (9th Cir.2002). Similarly, a district court in the Ninth Circuit "may grant a new trial only if the verdict is against the clear weight of the evidence." *Id.*

"Infringement is a question of fact, reviewed for substantial evidence when tried to a jury." *Finisar Corp. v. DirecTV Group, Inc.*, 523 F.3d 1323, 1332 (Fed.Cir.), *cert. denied*, ___ U.S. ___, 129 S.Ct. 754, 172 L.Ed.2d 727 (2008). Obviousness is a legal question reviewed *de novo*. *PharmaStem Therapeutics, Inc. v. ViaCell, Inc.*, 491 F.3d 1342, 1359 (Fed.Cir.2007), *cert. denied*, ___ U.S. ___, 128 S.Ct. 1655, 170 L.Ed.2d 355 (2008). The statutory standard requires us to decide whether the subject matter of the claimed invention "would have been obvious at the time the invention was made to a person of ordinary skill in the art to which [the subject matter of the invention] pertains." 35 U.S.C. § 103(a) (2006); *see also KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 415-16, 127 S.Ct. 1727, 167 L.Ed.2d 705 (2007). "Underpinning that legal issue are factual questions relating to the scope and content of the prior art, the differences between the prior art and the claimed invention, the level of ordinary skill in the art, and any relevant secondary considerations, such as commercial success, long-felt need, and the failure of others." *PharmaStem*, 491 F.3d at 1359.

We review for an abuse of discretion a district court's decision concerning the methodology for calculating damages. *Unisplay, S.A. v. Am. Elec. Sign Co.*, 69 F.3d 512, 517 n. 8 (Fed.Cir.1995); *see also State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1576-77 (Fed.Cir.1989) (noting that the precise methodology used in "assessing and computing damages is committed to the sound discretion of the district court").

We review the jury's determination of the amount of damages, an issue of fact, for substantial evidence. *SmithKline Diagnostics, Inc. v. Helena Labs. Corp.*, 926 F.2d 1161, 1164 n. 2 (Fed.Cir.1991). "A jury's decision with respect to an award of damages 'must be upheld unless the amount is grossly excessive or monstrous, clearly not supported by the evidence, or based only on speculation or guesswork.'" *State Contracting & Eng'g Corp. v. Condotte Am., Inc.*, 346 F.3d 1057, 1072 (Fed.Cir.2003) (quoting *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1580 (Fed.Cir.1992)).

II. Invalidity

Before the jury, Microsoft engaged in a multi-pronged attack of the Day patent's validity. Microsoft argued, for example, that the Day patent was anticipated under § 102(b) and (g) and obvious under § 103. On appeal, Microsoft challenges only the district court's denial of the JMOL motion on obviousness. Microsoft does not challenge any of the district court's claim constructions. In analyzing the obviousness defense, we therefore must apply the claim construction as it was presented to the jury. Further, Microsoft relies on only a single prior art document for its obviousness position with respect to claim 19.

Independent claim 19 is directed to a method of inputting data using certain predefined "tools" and entering that information into particular fields displayed in a computer form. Claim 21 depends from claim 19 and further specifies that the information field is displayed as "a bit-mapped-graphics field." Claims 19 and 21 read in full as follows.

> 19. A method for use in a computer having a display comprising the steps of

displaying on said display a plurality of information fields, identifying for each field a kind of information to be inserted therein,

indicating a particular one of said information fields into which information is to be inserted and for concurrently displaying a predefined tool associated with said one of said fields, said predefined tool being operable to supply information of the kind identified for said one field, said tool being selected from a group of predefined tools including a tool adapted to supply an individual entry from a menu of alternatives and at least a tool adapted to allow said user to compose said information, and

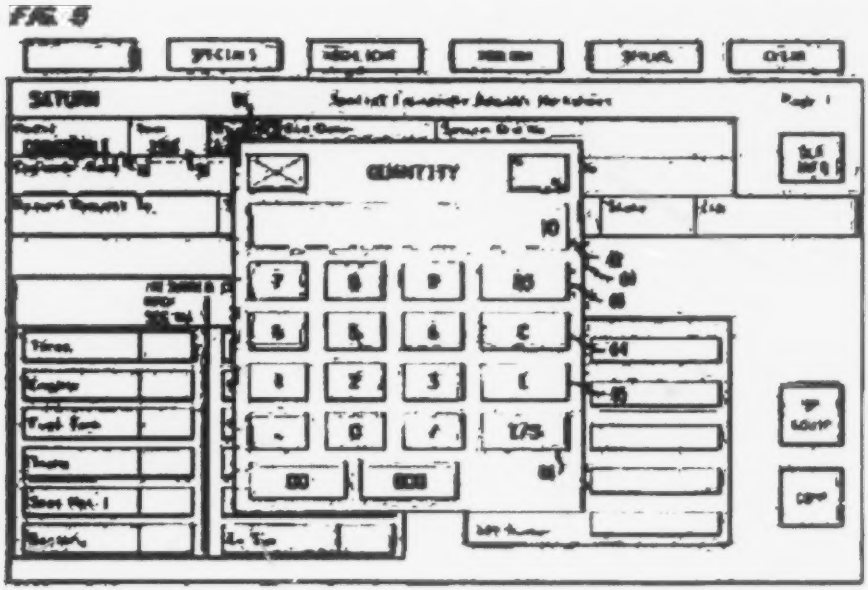
inserting in said one field information that is derived as a result of said user operating said displayed tool.

* * *

21. The method set forth in claim 19 wherein the step of displaying said pattern includes the step of displaying one or more of said information fields as a bit-mapped-graphics field.

The '356 patent, col.17 l.27 to col.18 l.22. Figure 5 of the Day patent, shown below, illustrates an embodiment of the invention in which a graphical calculator overlays the form having multiple fields, one of which—"Quantity" (Qty 61)—is highlighted.

FIG. 5



A. Claim 19

Microsoft's position was that claim 19 would have been obvious over a 1984 magazine article, Michael Tyler, *Touch Screens: Big Deal or No Deal?*, Datamation, Jan. 1984, at 146 ("the Datamation article" or "Datamation"). The article describes both the potential benefits and drawbacks of using computer touch screens at a time when computer technology was developing. As Datamation reports, analysts feared that "[t]he combination of these drawbacks and outside influences may doom the touch-sensitive terminal" and that "[e]ven touch technology's greatest proponents admit that the future is not as bright as it once seemed." *Id.* at 154. The Datamation article's ultimate message was that "[t]ouch-sensitive terminals may be very sexy in the office, but whether they actually stimulate people to use computers is open to doubt." *Id.* at 146.

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Much of the trial testimony, as relating to the FXFE system[4] in the Datamation article, described not what was in the article but what was allegedly prior art for purposes of prior public use or prior invention. The Datamation article's entire disclosure relied upon by Microsoft on appeal is much more limited, namely one photograph[5] and the following two short paragraphs.

> The bank is in the process of implementing a two-phase strategy that it feels will accomplish the breakout [technology]. The plan employs Easel workstations programmed in the bank's London office. Each workstation's screen is divided roughly in half vertically. Large touch-sensitive boxes at the top of the screen invite the user to declare the current transaction a "buy" or a "sell"; at the bottom, similar boxes let the users deal, service, cancel, log out, or lock out their screens. The right half of the screen lists key information about the current transaction, including buyer bank, seller bank, currency, exchange rate (in dollars and the foreign currency), broker, bank customer, exchange location, and method of payment.
>
> When the trader touches the screen in one of these areas, a list of potentially valid entries or a numeric keypad appears on the left half, inviting

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[4] In the Datamation article, the relevant computer system is referred to as Easel. Throughout trial and in the briefs, the system was called "FXFE," although that name is based on information outside the article's content. For ease of reference only, we use the FXFE terminology.

[5] The district court observed that the photograph in the Datamation article was "of limited clarity" and "limited in detail." 580 F.Supp.2d at 1032.

> the user to choose the information needed on the right. For instance, when the user hits the "broker" cell on the right, a list of brokers appears on the left; the trader then hits the name of the broker to be involved in the current trade, and the information is entered into the system. For exchange rates and other numerical data, the user hits the proper cell on the right and then types in the numeric data on the keypad that appears on the left. In this way, an entire transaction can be completed directly on the workstation. (A QWERTY layout can be called up on the left for entry of nonstandard or rare names—an infrequently traded currency, for example.)

Datamation, *supra*, at 148.

During trial, the opposing experts for Microsoft and Lucent expressed conflicting views about the Datamation article's disclosure. Specifically, the parties and their experts disagreed about whether the Datamation article described three of the limitations of claim 19 and whether a fourth limitation would have been obvious from the article. We address each limitation in turn.

First, the experts expressed differing opinions about whether the Datamation article disclosed the limitation of "inserting in said one field information that is derived as a result of said user operating said displayed tool." The district court construed this term to mean "inserting in a particular field information that is derived as a result of the user operating the displayed tool." Lucent argues that all the Datamation article states is that the information is entered "into the system." Microsoft counters that "[t]he article describes how an FXFE user entered (or 'inserted') information

into what it calls 'cells,' another name for 'information fields.'" But Microsoft's expert was less than direct when asked whether the Datamation disclosed an information field, as required by claim 19:

> Q: And you told us the article had information fields in it, right?
>
> A: The article refers to fields as cells, and I think people understand a cell to be a field.
>
> Q: The article doesn't use the word "information fields," does it?
>
> A: I recall it using fields—using cells to represent fields, and I think what it was describing was a field. Whether it actually used the word "field," I don't know. I'd have to look at the article to see if it—
>
> Q: The article talked about a broker cell. It didn't say that the information in the broker cell goes into a field, did it? You know it didn't use that term, right?
>
> A: I don't know that, but I—you would understand a cell to be a field. It was very clear from the article.
>
> Q: I know that you want to say that. What I'm asking you is what is actually in the article. You know as you sit here today that that article does not use the term "information field" in those words, true or false?
>
> A: I can't answer that because I would have to look at it to see if it used field, but when I read that article, it was clear to me what they were discussing was a field, and what's demonstrated there is a field. Whether they used

only cell and not field I'd have to actually look at the article.

Q: So can we agree that as you sit here today in the stand you don't know?

A: Well, I've read the article, but I haven't done an analysis on whether the word "field" actually shows up into that—in that article.

J.A. 08112-13.

Microsoft's expert seemed to equate the "information field" of claim 19 with the term "cell," as used in the Datamation article. What the article describes as a "cell," however, appears to be different from an "information field," as used in the claim of the Day patent. The article states that "when the user hits the 'broker' cell on the right, a list of brokers appears on the left." Datamation, *supra*, at 148. In the next stage of the transaction, the user could select from the "list of brokers appear[ing] on the left" and "the trader hits the name of the broker." *Id.* This sequence could be viewed as occurring without inserting an entry into an information field. Also, a reasonable jury could have understood "cell" to mean an area on the screen that a user touches to proceed to the next stage in the transaction and not an on-screen box in which entered data is displayed, i.e., an information field. The Day patent requires an information field.

It's entirely possible—and reasonable—for the jury to have concluded that the Datamation article describes a computer system operating as a data input system without the creation of on-screen forms having information fields, as required by claim 19. The photograph shows nothing about whether data is entered into a field and thus displayed on the screen. The photograph does not depict anything resembling

an "information field." A reasonable jury could have concluded that the FXFE system's process consisted of a user entering data, the system receiving that data, and the system then proceeding to the next operation in the process, without displaying the data in an information field on the screen. For instance, consider a sequence routinely employed by an automated teller machine (ATM). When withdrawing money from one's checking account (e.g., $50, $100, or $200), a user presses the appropriate on-screen button, the ATM system receives the input, and then the system proceeds to the next decisional operation (e.g., print receipt?). In this sequence, the system never enters and displays the user's selection into a field on the computer screen.

Although the Datamation article possibly describes a system capable of inserting data into an information field, the article itself does not appear to teach that step. Of singular importance here, however, is that the jury could have reasonably viewed the Datamation article as not disclosing the "inserting" step.

The second limitation in dispute is the "tool" limitation. Claim 19 requires a "tool adapted to allow said user to compose said information." The district court interpreted this limitation to mean "a graphical keyboard tool or a graphical number keypad tool, which allows the user to compose information by pointing to the display keys of that tool."

Microsoft again contends that the Datamation article necessarily discloses this "tool" limitation. Reasoning that the keyboard in the Datamation photograph is graphical because it is a "pictorial" image on the screen, Microsoft relies on testimony from an expert, who told the jury, "So when you're talking about something graphical, you're talking about a pictorial

representation that's displayed on the computer screen." This testimony, Microsoft asserts, is evidence sufficient to overturn the jury's verdict.

The jury also heard a different view from Lucent's expert, who explained the difference between a computer's "text mode" and "graphics mode." Lucent's expert opined that "[t]here's no evidence that the FXFE system was anything other than a text-based system." He further testified as followed:

> Q: Now, you told us this system is not a graphical system. What did you mean by that?
>
> A: This is—this program was written in text mode. Graphics mode on computers of this era was too slow to support productivity applications, which is what this is. So developers uniformly—I mean, there may have been a rare exception, but with the exception of people who needed to work in graphics such as allowing people to draw, these programs were built in text mode.
>
> And what text mode means is that the only control a programmer has is to say I want the letter A, I want the number zero, I want an exclamation point, I want an underscore and so forth. And even the microprocessor doesn't have control. There's a piece of hardware out there that's just putting characters on a screen.
>
> So it's text mode, it's not graphics mode. The 356[Day] patent is all about graphics mode.
>
> Q: In fact, the Court's construction for the composition tool says it has to be a graphical keypad tool.
>
> A: That's correct.

Q: And this isn't even a graphical system.

A: No, it's not.

J.A. 08658-59.

Microsoft's own expert seemingly admitted that the Datamation article did not necessarily disclose a system operating in graphics mode:

Q: And the article doesn't tell us that this system operated in graphics mode as we understand that term to mean where you're addressing information to individual pixels, right? The article doesn't say that?

A: Well, the article does describe that it had a very high resolution, 976 pixels by some other resolution, which indicates to me that it operated in—it could operate in a graphics mode.

Q: I'm not asking you if it could. The article does not use the phrase "graphics mode," does it?

A: I don't think the article describes whether it worked in graphics mode or not.

J.A. 08112. Based on this evidence, the jury was within its charge to conclude that the Datamation article did not disclose "a graphical keyboard tool or a graphical number keypad tool."

The third disputed limitation is "concurrently displaying a predefined tool associated with said one of said fields." The district court's construction requires this phrase to mean "displaying at the same time, as by a window overlaying the form." Microsoft contends that "[t]he Datamation article leaves no doubt that the FXFE system's graphical tools are displayed at the same time as the information fields." Lucent responds that Microsoft is impermissibly trying to

broaden the scope of the claim by eliminating a requirement that the window overlays the form.

As noted above, Microsoft did not object to the claim construction read to the jury, and does not appeal the claim construction to us. Based on the claim construction presented, the jury reasonably could have concluded that the Datamation article does not disclose a graphical tool that overlayed the form. Microsoft's expert conceded that the Datamation article doesn't describe a tool that overlays a form.

> Q: The article does not discuss tools overlaying a form, true?
>
> A: I don't think it describes it that way, no. Right.
>
> Q: In fact, the keyboard does not overlay the form in the—in the article. It would have been wrong if it described it that way, right?
>
> A: Yes, the—as I told you on my direct, the tools were on the left side of the screen.

J.A. 08112. From this testimony and the photograph "of limited clarity" in the Datamation article, the jury was permitted to conclude, as a factual matter, that the article did not disclose this limitation. Microsoft offers nothing to fill this gap in its obviousness analysis.

Instead, Microsoft argues to us that the jury applied the wrong claim construction requiring an overlayed tool. Microsoft asserts that the claim construction given by the district court mandates only the concurrent, or simultaneous, display of the "predefined tool" and the "one of said fields." This argument is unpersuasive, however. First, reading the claim construction as Microsoft does would render superfluous

the phrase "as by a window overlaying the form." If the proper claim application were as Microsoft argues it to be, the "as by" phrase is completely unnecessary. Second, as noted, Microsoft does not challenge the claim construction. If Microsoft believed that the proper claim construction does not require the tool to overlay the form, Microsoft should have argued for such a claim construction instead of disputing the jury's reasonable application of the claim construction as given to the jury.

The fourth limitation in dispute is the "indicating" step. Unlike the previous three claim limitations, the parties agree that the Datamation article does not explicitly disclose the limitation of "indicating a particular one of said information fields into which information is to be inserted." Microsoft's expert conceded that the Datamation article doesn't teach this limitation.

Moreover, both parties agree that "indicating" includes highlighting the information field or placing a cursor in the information field so the user knows which field "into which information is to be inserted." According to Microsoft, "failing to indicate which field information is being entered into—that is, having information show up randomly somewhere on the screen—would be contrary to all experience and common sense." We disagree. In many instances perhaps, it may make sense to highlight a field into which information is entered. But, when examined in the context of the Datamation article's description, we understand how the jury could conclude otherwise.

As noted above, the Datamation article doesn't explicitly describe the entering of information into onscreen fields. Assuming the article did, it does not necessarily lead one of skill in the art to have a

reason to "indicate" the field into which information is entered. The jury could have reasonably viewed the Datamation system as displaying only one onscreen information field. Nothing in the article appears to suggest that the FXFE system displays—or is capable of displaying—multiple information fields at the same time. To the contrary, the system is described as proceeding from the entry of one type of data to the next. *See* Datamation, *supra*, at 148. Having agreed with this description, the jury could have also concluded that an ordinarily skilled artisan would not have had a reason to "indicate" the only field on the computer screen. If there is only one field displayed on the screen, the user knows that any data will be entered into that single field. Specifying the only field by highlighting would not have helped the user in any way, or at least a jury could have so concluded, based on the evidence adduced at trial.

Having examined the four contested claim limitations, the jury would have been within its reasonable boundaries in finding the Datamation article to be lacking at least one of the limitations and in concluding that no sufficient reason existed to modify the prior art. When the underlying facts are taken in the light most favorable to Lucent, the non-moving party, the evidence reasonably permitted the jury to have decided that Microsoft did not prove by clear and convincing evidence that claim 19 would have been obvious. Accordingly, the district court did not err when it denied Microsoft's motion for judgment as a matter of law concerning the validity of claim 19.

B. Claim 21

Microsoft's invalidity position for claim 21 fares no better. Claim 21 requires that "the step of displaying said pattern includes the step of displaying one or

more of said information fields as a bit-mapped-graphics field." The district court construed "bit-mapped graphics field" to refer to "a field into which a user is to enter information by writing on a touch sensitive screen using a stylus."

Microsoft argues that claim 21 would have been obvious in light of Datamation alone, contending that the article "describes FXFE's touch sensitive screen as able to 'accept a finger, a pen, or any other device.'" The Datamation article, under Microsoft's reading, "inherently disclos[es] the ability to enter information by writing on the screen with a stylus." What Microsoft misapprehends is that the disclosed FXFE system can accept the *touch* of a pen or any other device. The Datamation article does not teach a computer system that can accept "information by writing on a touch sensitive screen using a stylus."

Microsoft also asserts that claim 21 would have been obvious over Datamation in view of other prior art teaching the process of capturing on-screen handwriting. This argument is not sufficient to overturn the jury's verdict. Nothing in the Datamation article itself discloses a reason why on-screen handwriting, e.g., by writing with a stylus, could or should be used with the FXFE system. Rather, much of the Datamation article appears to teach away from the inclusion of "a field into which a user is to enter information by writing on a touch sensitive screen using a stylus." The Datamation article quotes the Chemical Bank executive responsible for implementing the FXFE system as describing deficiencies with electronic pens: "We tried electronic pens, tablets, voice input, you name it. But the tablets demand too much precision on the part of the trader. . . ." Datamation, *supra*, at 148.

The article also details the need for fast and efficient entry of trades, describing traders who "handle 1,000 trades a day, and often deal so quickly that they cannot write down all their trades on separate slips of paper." *Id.* at 146. From this description, it's understandable how the jury could have concluded that a skilled artisan would not have had a reason to combine the Easel system with a slower means of inputting information such as "writing on a touch sensitive screen using a stylus." For these reasons, the district court did not err in denying Microsoft's motion for JMOL that claim 21 would have been obvious.

III. Infringement

The jury found indirect infringement by Microsoft. Claims 19 and 21 are method claims; thus, Microsoft's sales of its software alone cannot infringe the patent. Infringement occurs only when someone performs the method using a computer running the necessary software. Thus, Microsoft can only be liable for infringement of claims 19 and 21 as a contributor and/or an inducer.

Microsoft makes the following arguments concerning indirect infringement. First, Lucent didn't prove direct infringement, a necessary predicate for proving indirect infringement. Second, Lucent didn't prove contributory infringement because the products have substantial noninfringing uses. Third, Lucent can't prove inducement because the products are merely capable of inducing and Microsoft wasn't shown to have the requisite intent to induce. We address each argument in turn.

A. Direct Infringement

To infringe a method claim, a person must have practiced all steps of the claimed method. *See Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 775 (Fed. Cir.1993) ("A method claim is *directly* infringed only by one practicing the patented method."); *see also* 35 U.S.C. § 271 (2006). Just as anticipation can be found by a single prior art use, a finding of infringement can rest on as little as one instance of the claimed method being performed during the pertinent time period.

Lucent asserts that certain features of Outlook, Money, and Windows Mobile, when used, practice the methods of claims 19 and 21. For instance, Outlook includes a calendar tool that allows the user to enter dates in a form when preparing a record of an appointment. The tool displays a monthly calendar as a grid of numbered dates, along with graphical controls that allow the user to scroll to adjacent months or skip directly to a different month and year. Once the user defines a date with the tool, the software enters the numerical day, month, and year into the corresponding field in the appointment form. Similar to the number pad tool illustrated in the Day patent, Outlook's calendar date-picker tool enables the user to select a series of numbers, corresponding to the day, month, and year, using graphical controls. This date-picker calendar tool is incorporated in a few of Outlook's features. Microsoft Money and Windows Mobile have similar functionalities.

According to Microsoft, Lucent failed to introduce any evidence that any customer actually used the claimed method in any of the Microsoft products. Noting that "each accused product has numerous uses that do not involve forms with onscreen compo-

sition tools" and that "the specific narrow function of the patented method—filling in a form—can be performed without using the asserted 'composition tool' features," Microsoft urges that "infringement is not inevitable." The only evidence of direct infringement, in Microsoft's view, is the testimony of Lucent's expert.

We agree with Microsoft that there was little, if any, direct evidence of infringement. Lucent's expert testified on cross-examination as follows:

> Q: And you didn't provide any evidence of anybody, any of Dell's customers, for example, who actually performed all of the steps of the claims, right?
>
> A: Well, I can confess here and now that as a Dell customer, I did perform all steps of this claim many, many times.
>
> Q: When did you do it?
>
> A: Oh, back in—we've had Quicken on our Windows machines since around '98 or '99. So I've used that particular piece of software extensively using these tools.
>
> Q: These gentlemen sitting over here may want to talk to you after you get off the stand.
>
> A: I'm afraid they may.
>
> Q: But you didn't produce any evidence to this jury that anybody other than Lucent's trial team and its witnesses who actually performed every single step of the claim, is that fair?
>
> A: Again, my wife performed them all, so—

J.A. 07517. As is evident, Microsoft correctly points out that Lucent's direct evidence of infringement was limited.

If that were the only evidence of performing the claimed method, we would likely have to reverse. Nevertheless, circumstantial evidence was just adequate to permit a jury to find that at least one other person within the United States during the relevant time period, other than the expert, had performed the claimed method. Lucent's expert testified that "[i]t's hard to imagine that we're the only two people in the world that ever used it." J.A. 07517. As Lucent notes "Microsoft not only designed the accused products to practice the claimed invention, but also instructed its customers to use the accused products in an infringing way."

An informative case is *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261 (Fed.Cir.1986), in which we affirmed a district court's finding of direct infringement based on circumstantial evidence. In *Moleculon*, the district court held that the patentee "had met its burden of showing infringement under section 271(b) with circumstantial evidence of extensive puzzle sales, dissemination of an instruction sheet teaching the method of restoring the preselected pattern with each puzzle, and the availability of a solution booklet on how to solve the puzzle." *Id.* at 1272. Similarly, in the present case, the jury reviewed evidence relating to the extensive sales of Microsoft products and the dissemination of instruction manuals for the Microsoft products. The jury also heard corresponding testimony from Lucent's infringement expert. The circumstantial documentary evidence, supplementing the experts' testimony, was just barely sufficient to permit the jury to find direct infringement by a

preponderance of the evidence. As in *Moleculon*, the jury in the present case could have reasonably concluded that, sometime during the relevant period from 2003 to 2006, more likely than not one person somewhere in the United States had performed the claimed method using the Microsoft products. *See Moleculon*, 793 F.2d at 1272 ("It is hornbook law that direct evidence of a fact is not necessary. 'Circumstantial evidence is not only sufficient, but may also be more certain, satisfying and persuasive than direct evidence.'" (quoting *Michalic v. Cleveland Tankers, Inc.*, 364 U.S. 325, 330, 81 S.Ct. 6, 5 L.Ed.2d 20 (1960))); *see also Alco Standard Corp. v. Tenn. Valley Auth.*, 808 F.2d 1490, 1503 (Fed.Cir.1986) ("Although the evidence of infringement is circumstantial, that does not make it any less credible or persuasive.").

In challenging the jury's verdict, Microsoft contends that two cases control our review: *ACCO Brands, Inc. v. ABA Locks Manufacturer Co.*, 501 F.3d 1307 (Fed. Cir.2007), and *E-Pass Technologies, Inc. v. 3Com Corp.*, 473 F.3d 1213 (Fed.Cir.2007). Although similar, these precedents differ enough from the facts of the present case, thus allowing the jury's verdict to stand. In *ACCO Brands*, we held that a jury's finding of induced infringement was not supported by substantial evidence. 501 F.3d at 1314. ACCO, the patentee, relied only on its expert's testimony that the "natural and intuitive way to employ" the accused product, a computer lock, was in an infringing mode. *Id.* at 1312. Importantly, however, ACCO's expert "had no opinion" on the issue of "whether users other than himself used the lock in the infringing manner." *Id.* at 1313. Furthermore, the locks were sold not only without instructions teaching the infringing method, but with instructions teaching the non-infringing use. *Id.* The jury also had no evidence suggesting that the

U.S. distributor of the locks was aware of any infringing instructions. *Id.*

In a similar vein, *E-Pass* does not compel the overturning of the jury's verdict. There, the patentee tried to rely on "excerpts from the product manuals for various of the accused devices." 473 F.3d at 1222. All the court had before it, however, was evidence "show[ing], at best, that the Palm defendants taught their customers each step of the claimed method in isolation." *Id.* Thus, in both *ACCO Brands* and *E-Pass*, the patentees failed to introduce even circumstantial evidence of infringing acts.

Microsoft also misreads our holding in *Ball Aerosol & Specialty Container, Inc. v. Limited Brands, Inc.*, 555 F.3d 984 (Fed.Cir.2009). There, we reversed the district court's grant of summary judgment of infringement of a patent claiming a candle tin with a removable cover that also acts as a base for the candle holder. The issue in *Ball Aerosol* was one of claim construction rather than whether circumstantial evidence proved infringement. The patentee argued that "an apparatus patent claim with functional elements is infringed if the accused product is reasonably capable of being used without substantial modification in the manner recited in the claim." *Id.* at 994. The patentee conceded that there was "no proof that the Travel Candle was ever placed in the infringing configuration." *Id.* at 995.

Without doubt, Lucent would have been on much firmer ground had it introduced some direct evidence of using the claimed method. Nevertheless, Lucent's circumstantial evidence of infringement was "something less than the weight of the evidence," *Consolo v. Fed. Maritime Comm'n*, 383 U.S. 607, 620, 86 S.Ct. 1018, 16 L.Ed.2d 131 (1966), yet it was just "more

than a mere scintilla," *Consol. Edison Co. v. NLRB*, 305 U.S. 197, 229, 59 S.Ct. 206, 83 L.Ed. 126 (1938). Accordingly and for these reasons, we are not convinced that the district court erred in denying Microsoft's JMOL motion with respect to infringement. For similar reasons, substantial evidence supports the jury's finding as it relates to direct infringement by the use of Microsoft Money and Windows Mobile.

Microsoft also complains that the infringement finding was erroneous because Microsoft Outlook does not contain a "composition tool."[6] This argument likewise fails. A Lucent expert, Mr. Bruce Tognazzini, testified that the calendar tool in Outlook works by combining information to compose a complete date. He further explained that a composition tool is one that has "the ability to combine" information. A Microsoft expert, Mr. Dale Buscaino, appeared to concede this point as well, admitting that "a composition tool allows a user to put together parts." Although most of Microsoft's expert testimony disputed whether Outlook contained a composition tool, that testimony was insufficient to require a reasonable jury to find as a factual matter only noninfringement.

B. Contributory Infringement

Under 35 U.S.C. § 271(c), a party is liable for infringement if he "offers to sell or sells within the United States or imports into the United States . . . a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially

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[6] Microsoft does not dispute that both Money and Windows Mobile contain composition tools.

adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use." "In order to succeed on a claim of contributory infringement, in addition to proving an act of direct infringement, plaintiff must show that defendant 'knew that the combination for which its components were especially made was both patented and infringing' and that defendant's components have 'no substantial non-infringing uses.'" *Cross Med. Prods., Inc. v. Medtronic Sofamor Danek, Inc.*, 424 F.3d 1293, 1312 (Fed.Cir. 2005) (quoting *Golden Blount, Inc. v. Robert H. Peterson Co.*, 365 F.3d 1054, 1061 (Fed.Cir.2004)).

According to Microsoft, Lucent did not prove contributory infringement because the products have substantial noninfringing uses. Lucent counters that the date-picker tool does not have any noninfringing uses. Thus, as framed by the parties, the main issue reduces to whether the "material or apparatus" is the entire software package or just the particular tool (e.g., the calendar date-picker) that performs the claimed method. If the former, then Microsoft prevails because the entire software package has substantial noninfringing uses. If the material or apparatus is the specific date-picker tool, then Lucent wins because that tool was "especially made or especially adapted for" practicing the claimed method.

One example illustrates the problem with Microsoft's approach. Consider a software program comprising five—and only five—features. Each of the five features is separately and distinctly patented using a method claim. That is, the first feature infringes a method claim in a first patent, the second feature infringes a method claim in a second patent, and so forth. Assume also that the company selling the

software doesn't provide specific instructions on how to use the five features, thus taking potential liability outside the realm of § 271(b). In this scenario, under Microsoft's position, the software seller can never be liable for contributory infringement of any one of the method patents because the entire software program is capable of substantial noninfringing use. This seems both untenable as a practical outcome and inconsistent with both the statute and governing precedent.

Similarly, if, instead of selling Outlook with the date-picker, Microsoft had offered the date-picker for sale as a separate download to be used with Outlook, there would be little dispute that Microsoft was contributing to infringement of the Day patent. As we explained in *Ricoh Co. v. Quanta Computer Inc.*, 550 F.3d 1325, 1337 (Fed.Cir.2008), *cert. denied*, __ U.S. __, 129 S.Ct. 2864, 174 L.Ed.2d 578 (2009), an infringer "should not be permitted to escape liability as a contributory infringer merely by embedding [the infringing apparatus] in a larger product with some additional, separable feature before importing and selling it."

Microsoft puts much reliance on *Hodosh v. Block Drug Co.*, 833 F.2d 1575 (Fed.Cir.1987). Microsoft understands *Hodosh* to require "a focus on the product actually sold, not on a mere ingredient." Under this view, Microsoft didn't contribute to infringement because "[e]ach accused product had substantial noninfringing uses." Instead, according to Microsoft, the district court "eviscerate[d] *Hodosh* and read[ ] 'substantial noninfringing use' out of the statute."

But our court has previously rejected the interpretation of *Hodosh* urged by Microsoft on appeal:

> [T]his reading of *Hodosh* divorces the court's holding from the facts upon which it was rendered.

> In focusing on "what was actually sold," the *Hodosh* court rejected the argument that an otherwise *infringing* product may automatically escape liability merely because it contains a *noninfringing* staple ingredient. . . . It does not follow from *Hodosh* that the inclusion of a component with substantial noninfringing uses in a product that contains *other* components useful only to infringe a process patent can or should defeat liability for contributory infringement under § 271(c).

Ricoh, 550 F.3d at 1339-40.

More importantly, Microsoft fails to appreciate the factual basis for *Hodosh*'s holding. In *Hodosh*, the patent at issue claimed "a method for desensitizing teeth with a composition containing an alkali metal nitrate." 833 F.2d at 1576. The accused infringer sold toothpaste, e.g., "Sensodyne-F," containing potassium nitrate, an alkali metal nitrate. *Id.*; *see also Hodosh v. Block Drug Co.*, 786 F.2d 1136, 1137 (Fed.Cir. 1986). The accused infringer argued that the sale of the toothpaste, which itself was not patented, could not constitute contributory infringement because the toothpaste contained a staple article, i.e., potassium nitrate. *Hodosh*, 833 F.2d at 1578. The court rejected this argument. While potassium nitrate, when sold in bulk form, was "a staple article or commodity of commerce suitable for substantial noninfringing use," it was suitable only for the infringing use when sold as an ingredient in the toothpaste specially made to perform the patented method of desensitizing teeth.

Here, the infringing feature for completing the forms, i.e., the date-picker tool, is suitable only for an infringing use. Inclusion of the date-picker feature within a larger program does not change the date-

picker's ability to infringe. Because Microsoft included the date-picker tool in Outlook, the jury could reasonably conclude, based on the evidence presented, that Microsoft intended computer users to use the tool—perhaps not frequently—and the only intended use of the tool infringed the Day patent. *See Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 932, 125 S.Ct. 2764, 162 L.Ed.2d 781 (2005) (explaining that the contributory infringement doctrine "was devised to identify instances in which it may be presumed from distribution of an article in commerce that the distributor intended the article to be used to infringe another's patent, and so may justly be held liable for that infringement").

Finally, Microsoft contends that § 271(c) is not applicable here. Relying solely on *Microsoft Corp. v. AT & T Corp.*, 550 U.S. 437, 127 S.Ct. 1746, 167 L.Ed.2d 737 (2007), without further analysis, Microsoft contends that its "products are not a 'material or apparatus' as the statute requires for contributory infringement of patented methods." We need only respond that the Supreme Court in *Microsoft* did not address the meaning of "material or apparatus" in § 271(c).

C. Inducing Infringement

A party who "actively induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b). Under this provision, "[t]he plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements." *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed.Cir.1990), *quoted in DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1306 (Fed. Cir.2006) (en banc in relevant part). "[A] finding of

inducement requires a threshold finding of direct infringement—either a finding of specific instances of direct infringement or a finding that the accused products necessarily infringe." *Ricoh*, 550 F.3d at 1341 (citing *ACCO Brands*, 501 F.3d at 1313). "[I]nducement requires evidence of culpable conduct, directed to encouraging another's infringement, not merely that the inducer had knowledge of the direct infringer's activities." *DSU Med.*, 471 F.3d at 1306. A plaintiff may still prove the intent element through circumstantial evidence, just as with direct infringement, as discussed above. *See id.*; *see also Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1377 (Fed.Cir. 2005) ("A patentee may prove intent through circumstantial evidence."); *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed.Cir.1988) ("While proof of intent is necessary, direct evidence is not required; rather, circumstantial evidence may suffice."). Evidence of active steps taken to induce infringement, such as advertising an infringing use, can support a finding of an intention for the product to be used in an infringing manner. *DSU Med.*, 471 F.3d at 1305 (citing *Grokster*, 545 U.S. at 932, 125 S.Ct. 2764).

Microsoft argues that Lucent can't prove inducement because the software products are merely capable of infringing and the evidence didn't show the requisite intent to induce. As Microsoft sees it, "all Lucent has shown is that 'hypothetical direct infringement' might result if users choose particular options in each accused product." Relying on *DSU Medical* and *Kyocera Wireless Corp. v. International Trade Commission*, 545 F.3d 1340 (Fed.Cir.2008), Microsoft contends that

> Lucent presented only the same circumstantial evidence regarding the alleged possibility of using

> the accused products to infringe—marketing materials and help files—as evidence of intent to induce infringement of the Day patent. With regard to Outlook, for example, Lucent relied on materials generally describing Outlook's use of forms and its calendar feature. No evidence showed that Microsoft encouraged use of the date-picker or even mentioned the date-picker specifically. With regard to Money, the evidence showed that Microsoft encouraged customers to enter information by downloading it from the Internet, which avoids manually filling out the transaction form. And for Windows Mobile, Lucent presented evidence of general instructions on how to use the product and statements promoting its general use of forms and ease of use. None of these materials induces customers to use a composition tool to fill out a computer-based form.

Appellant Br. 52 (citations omitted).

Lucent responds, asserting that "Microsoft both encouraged others to commit infringing acts and knew or should have known that its conduct would result in direct infringement." Lucent cites its expert's testimony as supporting the jury's finding that "the infringing pop-up tool functionality is pervasive in the accused products; that the normal and intended operation of those products used the infringing functionality; and that Microsoft encouraged and intended users to infringe." Lucent also argues that the evidence "established that onscreen pop-up tools are critical to the functionality of the accused products," and that "Microsoft provided instruction, tutorials, and other materials directing users to operate the accused products in an infringing manner."

Having perused the evidence, we agree with Microsoft that the evidence is not strong, but we are not persuaded that the jury was unreasonable in finding that Microsoft possessed the requisite intent to induce at least one user of its products to infringe the claimed methods. With respect to inducing infringement with Outlook, Lucent points to the following testimony of its expert.

> Q: Does Microsoft intend users to use the forms and the different tools that we just looked at?
>
> A: Yes, definitely. It would be—you'd be unable to use the application and avoid forms.
>
> Q: So would you say then the form entry and the predefined tools of Microsoft Outlook form a material part of the limitations of claim 19 of the Day patent?
>
> A: Yes.
>
> Q: And the Outlook is specifically designed to use these forms and these predefined tools?
>
> A: Yes, it is.
>
> Q: Does Microsoft know that Outlook was designed to perform in that fashion?
>
> A: Yes. Again, they designed it. So they know they designed it to do that.

J.A. 07441-42. At one point, Lucent's infringement expert explained, on cross-examination, how certain Microsoft documentation encouraged users to use the infringing tool.

> Q: Okay. Let's look at [the document]. Access shared team calendars in Outlook 2003. View multiple calendars side by side to make scheduling meetings fast and more convenient.

A: Right.

Q: Is it the part about scheduling meetings—

A: That's correct.

Q: —that you now say is encouraging this method of Claim 19?

A: Well, yeah. You schedule meetings using this appointment form.

J.A. 07510. Additional circumstantial evidence lends further, albeit limited, support for the jury's factual finding of intent. And our review reveals slightly stronger circumstantial evidence of intent concerning Windows Mobile and Microsoft Money.

For these reasons, we affirm the district court's denial of Microsoft's motion for JMOL that Microsoft did not induce infringement of the Day patent.

IV. Damages

Based on the evidence of record, Microsoft (and Dell) sold approximately 110 million units of the three software products capable of practicing the methods of the asserted claims. The total dollar value of the sales was approximately $8 billion. At trial, Lucent's theory of damages was based on 8% of sales revenue for the accused software products, and it asked the jury to award $561.9 million based on Microsoft's infringing sales. Microsoft countered that a lump-sum payment of $6.5 million would have been the correct amount for licensing the protected technology. *See Lucent Techs.*, 580 F.Supp.2d at 1042 & n. 7.

Microsoft challenges the jury's damages award on several bases. First, Microsoft argues that the jury should not have applied the entire market value rule

to the value of its three software products. Microsoft's second argument for reversing the damages award is that, for method claims, *Dynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263 (Fed.Cir.2004), requires that damages be limited to the proven number of instances of actual infringing use. Microsoft states that, "[u]nder *Dynacore*, Lucent had to tie its damages claim to demonstrated instances of direct infringement." For the reasons stated below, we reject both arguments as presented by Microsoft. We agree, nevertheless, with Microsoft's argument that substantial evidence does not support the jury's verdict of a lump-sum royalty payment of $357,693,056.18. Further, to the extent the jury relied on an entire market value calculation to arrive at the lump-sum damages amount, that award is not supported by substantial evidence and is against the clear weight of the evidence.

A. Reasonable Royalty

"Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." 35 U.S.C. § 284. As the Supreme Court has framed the general issue of determining damages, at least for competitors, a court must ask, "[H]ad the Infringer not infringed, what would [the] Patent Holder[ ] have made?" *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964); *see also Pall Corp. v. Micron Separations, Inc.*, 66 F.3d 1211, 1223 (Fed.Cir.1995) ("[T]he purpose of compensatory damages is not to punish the infringer, but to make the patentee whole."). In the Supreme Court's words,

awarding damages through litigation attempts to assess "the difference between [the patentee's] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552, 6 S.Ct. 934, 29 L.Ed. 954 (1886).

The burden of proving damages falls on the patentee. *Dow Chem. Co. v. Mee Indus., Inc.*, 341 F.3d 1370, 1381 (Fed.Cir.2003); *Kearns v. Chrysler Corp.*, 32 F.3d 1541, 1551 (Fed.Cir.1994). Two alternative categories of infringement compensation are the patentee's lost profits and the reasonable royalty he would have received through arms-length bargaining. *See Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1157 (6th Cir.1978) (Markey, J.). Lost profits are not at issue in the present case. A reasonable royalty is, of course, "merely the floor below which damages shall not fall." *Bandag, Inc. v. Gerrard Tire Co.*, 704 F.2d 1578, 1583 (Fed.Cir.1983).

Litigants routinely adopt several approaches for calculating a reasonable royalty. The first, the analytical method, focuses on the infringer's projections of profit for the infringing product. *See TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 899 (Fed. Cir.1986) (describing the analytical method as "subtract[ing] the infringer's usual or acceptable net profit from its anticipated net profit realized from sales of infringing devices"); *see also* John Skenyon et al., *Patent Damages Law & Practice* § 3:4, at 3-9 to 3-10 (2008) (describing the analytical method as "calculating damages based on the infringer's own internal profit projections for the infringing item at the time the infringement began, and then apportioning the projected profits between the patent owner and the infringer"). The second, more common

approach, called the hypothetical negotiation or the "willing licensor-willing licensee" approach, attempts to ascertain the royalty upon which the parties would have agreed had they successfully negotiated an agreement just before infringement began. *See Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F.Supp. 1116, 1120 (S.D.N.Y.1970); *see also Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 n. 13 (Fed. Cir.1995) (en banc); *Radio Steel & Mfg. Co. v. MTD Prods., Inc.*, 788 F.2d 1554, 1557 (Fed.Cir.1986) ("The determination of a reasonable royalty, however, is based not on the infringer's profit, but on the royalty to which a willing licensor and a willing licensee would have agreed at the time the infringement began."); *Panduit*, 575 F.2d at 1159 ("Among the relevant facts are: what plaintiff's property was, to what extent defendant has taken it, its usefulness and commercial value as shown by its advantages over other things and by the extent of its use, and the commercial situation." (citations and quotation marks omitted)). The hypothetical negotiation tries, as best as possible, to recreate the *ex ante* licensing negotiation scenario and to describe the resulting agreement. In other words, if infringement had not occurred, willing parties would have executed a license agreement specifying a certain royalty payment scheme. The hypothetical negotiation also assumes that the asserted patent claims are valid and infringed.

In the present appeal, the parties, in offering the damages evidence, each adopted the hypothetical negotiation approach, without objection. Both Microsoft and Lucent must therefore accept that any reasonable royalty analysis "necessarily involves an element of approximation and uncertainty." *Unisplay*, 69 F.3d at 517. We review the damages award within the *Georgia-Pacific* framework.

Before the district court, Lucent asked for a damages award based only on a running royalty. Microsoft, on the other hand, told the jury that the damages should be a lump-sum royalty payment of $6.5 million. Based on the verdict form, the jury decided on a lump-sum award, not a running royalty. The verdict form notes a lump-sum damages amount and no amount (i.e., zero or "N/A") on the lines for a running royalty. Faced with the jury's selection, our task is to determine whether substantial evidence supports a lump-sum, paid-in-full royalty of approximately $358 million for Microsoft's indirect infringement of the Day patent. To do this, we must decide whether substantial evidence supports the jury's implicit finding that Microsoft would have agreed to, at the time of the hypothetical negotiation, a lump-sum, paid-in-full royalty of about $358 million. In performing this analysis, we focus mainly on the damages case as it applies to Microsoft Outlook, as infringement by the use of Outlook apparently constituted the vast majority of the award. We focus also on the relevant *Georgia-Pacific* factors, as presented to the jury through all the evidence and particularly the experts' testimony.

We also note the following at the outset of our analysis. Microsoft does not argue on appeal that any of the evidence relevant to the damages award was improperly before the jury. At times, Microsoft's briefs seem to suggest that the district court judge "abdicated" her role as a gatekeeper. The responsibility for objecting to evidence, however, remains firmly with the parties. Here, the record reveals that, at trial, Microsoft objected neither to the introduction of any of the licenses discussed below nor to the testimony of Lucent's expert as it related to those licenses. In this instance, the district court judge had

no independent mandate to exclude any of that evidence. Therefore, we must accept that the licensing agreements and other evidence were properly before the jury. Any implicit objection on appeal is deemed waived by failing to object at trial.

1. Factor 2

The second *Georgia-Pacific* factor is "[t]he rates paid by the licensee for the use of other patents comparable to the patent in suit." 318 F.Supp. at 1120. This factor examines whether the licenses relied on by the patentee in proving damages are sufficiently comparable to the hypothetical license at issue in suit. *See* Russell L. Parr, *Royalty Rates for Licensing Intellectual Property* 64 (2007) ("For similar license agreements to be used as a proxy for derivation of a fair market royalty, the form of license compensation should be on a like-kind basis."). Subsumed within this factor is the question of whether the licensor and licensee would have agreed to a lump-sum payment or instead to a running royalty based on ongoing sales or usage.

Significant differences exist between a running royalty license and a lump-sum license. In a standard running royalty license, the amount of money payable by the licensee to the patentee is tied directly to how often the licensed invention is later used or incorporated into products by the licensee. A running royalty structure shifts many licensing risks to the licensor because he does not receive a guaranteed payment. Royalties are dependent on the level of sales or usage by the licensee, which the licensee can often control.

Compared to a running royalty analysis, a lump-sum analysis involves different considerations. A

lump-sum license "benefits the patentholder in that it enables the company to raise a substantial amount of cash quickly and benefits the target [i.e., the licensee] by capping its liability and giving it the ability, usually for the remainder of the patent term, to actually use the patented technology in its own products without any further expenditure." Richard F. Cauley, *Winning the Patent Damages Case* 47 (2009). The lump-sum license removes or shifts certain risks inherent in most arms-length agreements. A lump-sum license removes any risk that the licensee using the patented invention will underreport, e.g., engage in false reporting, and therefore underpay, as can occur with a running royalty agreement. Additionally, for both contracting parties, the lump-sum license generally avoids ongoing administrative burdens of monitoring usage of the invention.

A further, important consideration is that an upfront, paid-in-full royalty removes, as an option for the licensee, the ability to reevaluate the usefulness, and thus the value, of the patented technology as it is used and/or sold by the licensee. As generally employed, once a lump-sum license is duly executed, the licensee is obligated to pay the entire, agreed-upon amount for the licensed technology, regardless of whether the technology is commercially successful or even used. A licensee to a lump-sum agreement, under usual licensing terms, cannot later ask for a refund from the licensor based on a subsequent decision not to use the patented technology. There is no provision for buyer's remorse.

The lump-sum structure also creates risks for both parties. The licensed technology may be wildly successful, and the licensee may have acquired the technology for far less than what later proved to be

its economic value. The alternative risk, of course, is the licensee may have paid a lump-sum far in excess of what the patented invention is later shown to be worth in the marketplace.

As noted, Lucent's licensing expert, Roger Smith, argued for damages based solely on a running royalty rate. Smith emphasized his choice of a running royalty over a lump-sum payment.

> Q: Now, in each case, in the [other patents in suit] and then finally the Day 356 form entry patent, in each case you've selected a running royalty structure for your reasonable royalty; is that right?
>
> A: I certainly did, yes.

J.A. 07805. He also explained that "the running royalty in a hypothetical negotiation such as the one we're considering here would be appropriate, even though lump-sum does have the advantage that brings the money up front or at least some of it." *Id.*

On appeal, however, Lucent defends the damages award, contending that substantial evidence supports the lump-sum award of about $358 million. This is problematic for several reasons. First, no evidence of record establishes the parties' expectations about how often the patented method would be used by consumers. Second, the jury heard little factual testimony explaining how a license agreement structured as a running royalty agreement is probative of a lump-sum payment to which the parties would have agreed. Third, the license agreements for other groups of patents, invoked by Lucent, were created from events far different from a license negotiation to avoid infringement of the one patent here, the Day patent.

Parties agreeing to a lump-sum royalty agreement may, during the license negotiation, consider the expected or estimated usage (or, for devices, production) of a given invention, assuming proof is presented to support the expectation, because the more frequently most inventions are used, the more valuable they generally are and therefore the larger the lump-sum payment. Conversely, a minimally used feature, with all else being equal, will usually command a lower lump-sum payment. In this case, Lucent identifies no documentary evidence or testimony showing the parties' expectations as to usage of the claimed method. Lucent submitted no evidence upon which a jury could reasonably conclude that Microsoft and Lucent would have estimated, at the time of the negotiation, that the patented date-picker feature would have been so frequently used or valued as to command a lump-sum payment that amounts to approximately 8% of the sale price of Outlook. *Cf. Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1384-85 (Fed.Cir.2001) (accepting as suitable factual evidence the patentee's "business plan and its projections for future sales" prepared "two months before infringement began").

Lucent's expert Mr. Smith did try to explain how one would calculate what an acceptable lump-sum would be.

> Q: Well, when one is considering what the magnitude of a lump-sum payment might be, does one ever look at what the expected royalty—total royalty would be produced by a running royalty based on the available information at that time?
>
> A: That generally is the way a lump sum would be determined, by looking at what the running

> royalty—what the value of each use of the patent might be and *then speculating as to the extent of the future use.*

J.A. 07805 (emphasis added). But an explanation urging jurors to rely on speculation, without more, is often insufficient. *See Novosteel SA v. United States*, 284 F.3d 1261, 1276 (Fed.Cir.2002) (Dyk, J., dissenting) ("It is well established that speculation does not constitute 'substantial evidence.'"). Smith repeated his "lump-sum speculation theory" when he told the jury that parties "speculate" as to what they expect the future to be like when negotiating a lump-sum payment for a patent license. In short, Smith's testimony could be interpreted as suggesting to the jury that it was proper to "speculate" as to the proper lump-sum damages amount even though he may have intended the word "speculate" to mean "estimate."

Despite this shortcoming in its evidence, Lucent relies on eight varied license agreements which purportedly support the jury's lump-sum damages award. When we examine these license agreements, along with the relevant testimony, we are left with two strong conclusions. First, some of the license agreements are radically different from the hypothetical agreement under consideration for the Day patent. Second, with the other agreements, we are simply unable to ascertain from the evidence presented the subject matter of the agreements, and we therefore cannot understand how the jury could have adequately evaluated the probative value of those agreements.

Only four of the eight agreements purport to be lump-sum agreements: (1) a 1993 agreement between Dell and IBM for $290 million; (2) a 1996 agreement between Microsoft and Hewlett-Packard for $80

million; (3) a 1997 agreement between Microsoft and Apple Computer for $93 million; and (4) a 1999 agreement between Microsoft and Inprise for $100 million. Lucent's brief characterizes the four agreements as covering "PC-related patents," as if personal computer kinship imparts enough comparability to support the damages award. For the latter three, it is impossible for us, based on the record, to determine whether the agreements are at all comparable to the hypothetical agreement of the present suit. For the first agreement, what little explanation there is only underscores the differences between it and any hypothetical agreement for the Day patent.

The 1993 agreement between IBM and Dell appears to be a modification of their 1988 agreement. These two IBM-Dell agreements are vastly different from any agreement Microsoft and Lucent would have struck for the Day patent at the time of infringement. As best as we can discern, the 1988 agreement appears to govern IBM's licensing of its entire patent portfolio protecting its one-time dominance in the personal computer market. *See* J.A. 08193 (witness testimony explaining in cursory fashion the Dell-IBM agreement); *see also Dell Computer Co.: Clones of IBM's PS/2 Line of Computers Announced*, The Wall Street Journal, Apr. 19, 1988, at 13 (reporting that Dell "became the first company to announce copies of International Business Machines Corp.'s year-old Personal System/2 computer line"); *Two Companies in Texas Race to Clone PS/2*, The Wall Street Journal, Apr. 8, 1988, at 20 (reporting that IBM was "considering raising the royalty it charges, and plans to be more aggressive in making sure competitors take out licenses" for personal computers). At the time, conventional wisdom instructed that selling IBM clones required a license to IBM's patent

portfolio. Dell's business was built around selling IBM clones. From this information, a reasonable juror could only conclude that the IBM-Dell license agreement for multiple patents to broad, PC-related technologies is directed to a vastly different situation than the hypothetical licensing scenario of the present case involving only one patent, the Day patent, directed to a narrower method of using a graphical user interface tool known as the date-picker. Of course, without more information about the IBM-Dell agreement, one can only speculate about how the Dell-IBM agreement could be compared to any licensing agreement involving the Day patent.

For the other three lump-sum agreements, Lucent's expert supplied no explanation to the jury about the subject matter or patents covered by those agreements. For example, the entire substance of Lucent's expert's testimony about the Microsoft-Apple agreement amounted to the following colloquy:

> Q: What did you ascertain or what is Plaintiff's Exhibit 5150?
>
> A: Plaintiff's Exhibit 5150 is a patent cross-license agreement between Microsoft and Apple.
>
> Q: And what did you find significant about this cross-license agreement between Microsoft and Apple?
>
> A: The slide that's on the screen shows that this is a cross-license in which Hewlett—in which Microsoft gave to Apple in addition to a license under its patents a royalty payment or a balancing payment of some $93,000,000.

J.A. 07746.[7] Counsel for Lucent immediately followed this exchange with an equally scant inquiry into the Microsoft-Inprise agreement.

> Q: And could you turn in your evidence binder to Plaintiff's Exhibit 5151 and tell us what that is?
>
> A: 5151 is a patent cross-license agreement between Microsoft and a company known as Inprise.
>
> Q: And if you could turn to slide 41, would that assist the presentation of your testimony in connection with that agreement?
>
> A: It would.
>
> * * *
>
> THE WITNESS: This call out shows the essential features of the Inprise Microsoft license agreement which [is] the same general idea as those which we've just been looking at. Microsoft pays Inprise a sum of money, in this case $100,000,000, in addition to granting a license under its patents, and Inprise gets a royalty-free license under Microsoft's patents.

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[7] The Microsoft-Apple agreement also appears directed to a large collaboration far more complicated than the patent covering the infringing date-picker tool at issue in the present appeal. *See* Press Release, Microsoft Corp., Microsoft and Apple Affirm Commitment to Build Next Generation Software for Macintosh (Aug. 6, 1997), http:// www. microsoft. com/presspass/press/ 1997/aug97/msmacpr.mspx (noting that "[t]he companies agreed to a broad patent cross-licensing agreement" that "paves the way for the two companies to work more closely on leading-edge technologies for the Mac platform"). But, in view of the sparse record, any supposition about the agreement would again be little more than speculation.

J.A. 07746. The jury heard similarly superficial testimony about the license agreement between Microsoft and Hewlett-Packard. Lucent's expert merely observed that, under the cross-license, Hewlett-Packard received "a royalty-free worldwide fully paid up license under the Microsoft patents" and Microsoft "agreed in return for a license under Hewlett Packard's patents to pay Hewlett Packard the sum of . . . $80,000,000." J.A. 07745.

Lucent candidly admits in its brief that "none of the real world licenses introduced at trial arose from circumstances identical to those presumed to prevail in the hypothetical royalty negotiation." Appellee's Br. 50. Moreover, the testimony excerpted above belies Lucent's claim of "present[ing] particularized expert testimony explaining how various differences between the real and hypothetical license negotiations . . . would factor into the appropriate royalty for Microsoft's infringement." *Id.* The testimony provides no analysis of those license agreements, other than, for example, noting the agreement was a cross-license of a large patent portfolio and the amount paid. Lucent had the burden to prove that the licenses were sufficiently comparable to support the lump-sum damages award. The law does not require an expert to convey all his knowledge to the jury about each license agreement in evidence, but a lump-sum damages award cannot stand solely on evidence which amounts to little more than a recitation of royalty numbers, one of which is arguably in the ballpark of the jury's award, particularly when it is doubtful that the technology of those license agreements is in any way similar to the technology being litigated here.

Lucent also cites four running-royalty license agreements which purportedly provide substantial evidence supporting a lump-sum damages award of approximately $358 million. A significant shortcoming of these agreements is their "running-royalty" nature, however. As we noted above, certain fundamental differences exist between lump-sum agreements and running-royalty agreements. This is not to say that a running-royalty license agreement cannot be relevant to a lump-sum damages award, and vice versa. For a jury to use a running-royalty agreement as a basis to award lump-sum damages, however, some basis for comparison must exist in the evidence presented to the jury. In the present case, the jury had almost no testimony with which to recalculate in a meaningful way the value of any of the running royalty agreements to arrive at the lump-sum damages award.

Additionally, in its brief before us, Lucent appears to misunderstand the nature of a per-unit royalty. Lucent appears to consider a per-unit royalty as being equivalent to a lump-sum royalty. *See* Appellee's Br. 49-50 ("[T]he aforementioned licenses—calling for a lump-sum or commuted per-unit royalty *not* calculated as a function of product revenue—support the damages award entirely independent from Microsoft's product revenues."). What that statement ignores is the relationship between product revenues and per-unit running royalties. A per-unit running royalty is paid based on the number of units ultimately sold (or made, etc.), which is of course directly related to product revenues. As more units are sold, more revenue is earned and more royalties are paid. If the licensee chooses to omit the patented feature from its commercial product, the licensee will generally owe no per-unit royalty. Thus, a per-unit running royalty agreement differs from a lump-sum agreement in the

same general ways a percentage-of-price running royalty agreement differs from a lump-sum agreement. *See* Raymond T. Nimmer & Jeff Dodd, *Modern Licensing Law* § 7:4 (2008) ("Most running royalties fall into one of two categories: fixed price per unit and percentage of revenue/sales/income.").

Furthermore, the running royalty agreements put into evidence, as with the lump-sum agreements, differ substantially from the hypothetical negotiation scenario involving the Day patent. The four running royalty agreements upon which Lucent relies are agreements between itself and Vox Communications ("Vox agreement"); between itself and Kenwood ("Kenwood agreement"); between itself and Acer ("Acer agreement"); and between Microsoft and MPEG-LA ("MPEG agreement").

The Vox agreement covered five Lucent patents, which, as explained by Lucent's expert, are directed to PC graphics boards manufactured by Vox. In addition to a lump-sum payment of $50,000, Vox agreed to pay a per-unit rate of $2.00 for each licensed product. But no testimony described how the patented technology of the Vox agreement relates to the licensed graphics boards. Lucent's expert never explained to the jury whether the patented technology is essential to the licensed product being sold, or whether the patented invention is only a small component or feature of the licensed product (as is the case here). The jury also had no information about the price of Vox's PC graphics boards and thus was unable to assess the magnitude of the $2.00 rate, which seems particularly relevant given Lucent's defense of an award amounting to about 8% of the market value of Outlook. In the absence of the price of graphics boards, the $2.00 value is difficult, if not

impossible, to evaluate. The testimony of Lucent's expert relating to the Vox agreement was confined essentially to the fact that the agreement is a cross-licensing agreement in which the rights granted to Lucent were royalty-free and that the royalty rate is structured as a commuted rate.

The Kenwood agreement, covering two Lucent patents directed to DVD player products, is a hybrid lump-sum/running royalty cross-license agreement. Kenwood agreed to pay Lucent an up-front payment of $3 million along with a per-unit royalty of $1.50 for each product in excess of 300,000 units. Lucent's expert told the jury that the Kenwood agreement was a cross-license, conveying rights to Lucent to practice Kenwood's patents, but the jury never learned anything about those patent rights and how valuable or essential those rights were. Even if we were to apply the $1.50 per unit rate of the Kenwood agreement to the number of infringing units that could be used to infringe in the present case, this would yield only about $165 million, substantially less than the $358 million awarded by the jury.

The Acer agreement, executed in 1998, involved eight patents and various commercial products. Lucent refers to the Acer agreement as one involving PC-related patents. During his testimony, Lucent's expert focused almost exclusively on the per-unit royalty rate of $2.50 and the lump-sum payment of $14.5 million. But the jury again did not hear any explanation of the types of products covered by the agreement or the various royalty rates set forth in the agreement. Specifically, the agreement calls for different royalties for different products. For so-called "reportable products," the rate is not a fixed dollar amount but set at 2%, while the royalty rates for

"semiconductive devices" is in the range of 1%. Furthermore, Lucent did not explain how the fact that the Acer agreement involved eight patents affects how probative it is of the Microsoft-Lucent hypothetical negotiation over one patent. Nor is there any document or testimony upon which a jury could have considered how similar or dissimilar the patented technology of the Acer agreement is to the invention of using the date-picker. Nor is there any evidence or testimony about how the $2.50 per unit rate corresponds to a percentage of the cost of the "personal computers" sold under the license agreement. It is not implausible that the average price of the computers subject to the Acer agreement was close to $1000. *See* Larry Armstrong, *How Did Santa Carry All Those Computers*, Business Week, Jan. 11, 1999, at 46, 46 (noting that, in November 1999, "the average selling price of a PC without monitor dropped below $1,000 for the first time"); Roger O. Crockett & Peter Burrows, *PC Makers Race to the Bottom*, Business Week, Oct. 12, 1998, at 48, 48 (noting an average PC price of about $1,200); Nick Turner, *PC World Comes to Grips With Less-Is-More Mentality*, Investor's Business Daily, Dec. 30, 1998, at A8 (citing an average PC cost of $1,026). Such an average price would mean the $2.50 per-unit rate of the Acer agreement equates to approximately one-quarter of one percent of the value of the computer, which is about one-thirtieth the constructive rate awarded to Lucent.

Finally, the MPEG agreement on its face supports a higher royalty rate of $4 per unit. But, as with the other running royalty agreements, the structure of the MPEG agreement is more complicated, and the jury had little to no testimony explaining how such complexity would have affected the hypothetical

negotiation analysis. Specifically, the 31-page agreement contains numerous provisions covering various MPEG-related products (e.g., decoding products, distribution encoding products, program stream products, etc.). Moreover, the various products appear to have different royalty rates, some as low as a penny per unit.

We now consider what Microsoft advocated, namely that the hypothetical negotiation would have yielded a lump-sum licensing agreement for $6.5 million. For whatever reason, Microsoft urged the jury to accept its theory based on a proffer of a single license Microsoft had executed for a graphical user interface technology. Thus, at a minimum, a reasonable jury could have awarded $6.5 million, or some larger amount as permitted by the evidence. *See Rite-Hite*, 56 F.3d at 1555 ("[W]hat an infringer would prefer to pay is not the test for damages.").

But we see little evidentiary basis under *Georgia-Pacific* Factor 2 for awarding roughly three to four times the average amount in the lump-sum agreements in evidence. Here the award was $358 million; there, the amounts were $80, 93, 100, and 290 million. That some licenses were cross-licenses or commuted-rate licenses—which may warrant a higher damages award—does not fill the evidentiary lacunae. Again, it was Lucent's burden to prove that the licenses relied on were sufficiently comparable to sustain a lump-sum damages award of $358 million. This is not an instance in which the jury chose a damages award somewhere between maximum and minimum lump-sum amounts advocated by the opposing parties. *Cf. Fuji Photo*, 394 F.3d at 1378 ("[T]he jury is not bound to accept a rate proffered by one party's expert but rather may choose an intermediate royalty rate.").

For the reasons stated, Factor 2 weighs strongly against the jury's award.

2. Factors 10 and 13

Factor 10 is "[t]he nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention." *Georgia-Pacific*, 318 F.Supp. at 1120. Factor 13 is "[t]he portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer." *Id.* These two factors, at least as applied to the facts of this case, both aim to elucidate how the parties would have valued the patented feature during the hypothetical negotiation.

The evidence can support only a finding that the infringing feature contained in Microsoft Outlook is but a tiny feature of one part of a much larger software program. Microsoft's expert explained that Outlook's e-mail component is "the part of Outlook that's most commonly used by our customers." Microsoft's witness also explained that, in addition to sending and receiving e-mails, a user can create electronic tasks and notes. Additionally, Outlook can be used as an electronic Rolodex™, storing contact information, such as phone numbers, addresses, and the like. It also has a fully functional calendar system, in which a user can record appointments, meetings, and other items on one's schedule. As Lucent's own expert testified, Outlook is a "personal organizer" that is "an integrated suite of abilities to do e-mail, to set up contacts, to arrange meetings, to maintain your personal calendar, et cetera." In short, Outlook is an enormously complex software program

comprising hundreds, if not thousands or even more, features. We find it inconceivable to conclude, based on the present record, that the use of one small feature, the date-picker, constitutes a substantial portion of the value of Outlook.

The parties presented little evidence relating to Factor 13. Nonetheless, the only reasonable conclusion is that most of the realizable profit must be credited to non-patented elements, such as "the manufacturing process, business risks, or significant features or improvements added by [Microsoft]." As explained by Microsoft's expert Mr. Kennedy, Outlook consists of millions of lines of code, only a tiny fraction of which encodes the date-picker feature. Although the weighing of Factor 13 cannot be reduced to a mere counting of lines of code, the glaring imbalance between infringing and non-infringing features must impact the analysis of how much profit can properly be attributed to the use of the date-picker compared to non-patented elements and other features of Outlook. Here, numerous features other than the date-picker appear to account for the overwhelming majority of the consumer demand and therefore significant profit.

The only reasonable conclusion that can be drawn from this evidence is that the infringing use of Outlook's date-picker feature is a minor aspect of a much larger software program and that the portion of the profit that can be credited to the infringing use of the date-picker tool is exceedingly small. For these reasons, Factors 10 and 13 of *Georgia-Pacific* provide little support for the jury's lump-sum damages award of $357,693,056.18.

3. Factor 11

Factor 11 is "[t]he extent to which the infringer has made use of the invention; and any evidence probative of the value of that use." *Georgia-Pacific*, 318 F.Supp. at 1120. As with Factors 10 and 13, the eleventh factor informs the court and jury about how the parties would have valued the patented feature during the hypothetical negotiation. In doing so, Factor 11 relies on evidence about how much the patented invention has been used. Implicit in this factor is the premise that an invention used frequently is generally more valuable than a comparable invention used infrequently.

During oral argument, Microsoft characterized as irrelevant information about how often the date-picker tool has in fact been used by consumers of Microsoft products. That is so, according to Microsoft, because such facts postdate the time of the hypothetical negotiation. *See Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1081 (Fed.Cir.1983) ("The issue of the infringer's profit is to be determined not on the basis of a hindsight evaluation of what actually happened, but on the basis of what the parties to the hypothetical license negotiations would have considered at the time of the negotiations."). But neither precedent nor economic logic requires us to ignore information about how often a patented invention has been used by infringers. Nor could they since frequency of expected use and predicted value are related.

In *Sinclair Refining Co. v. Jenkins Petroleum Process Co.*, 289 U.S. 689, 698, 53 S.Ct. 736, 77 L.Ed. 1449 (1933), the Supreme Court recognized that factual developments occurring after the date of the

hypothetical negotiation can inform the damages calculation:

> [A] different situation is presented if years have gone by before the evidence is offered. Experience is then available to correct uncertain prophecy. Here is a book of wisdom that courts may not neglect. We find no rule of law that sets a clasp upon its pages, and forbids us to look within.

Similarly, our case law affirms the availability of post-infringement evidence as probative in certain circumstances. In *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1575 (Fed.Cir.1988), *overruled on other grounds by Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed.Cir.2004) (en banc), we observed that the hypothetical negotiation analysis "permits and often requires a court to look to events and facts that occurred thereafter and that could not have been known to or predicted by the hypothesized negotiators."

Consideration of evidence of usage after infringement started can, under appropriate circumstances, be helpful to the jury and the court in assessing whether a royalty is reasonable. Usage (or similar) data may provide information that the parties would frequently have estimated during the negotiation. *See Sinclair Ref.*, 289 U.S. at 697, 53 S.Ct. 736 ("The use that has been made of the patented device is a legitimate aid to the appraisal of the value of the patent at the time of the breach."). Such data might, depending on the case, come from sales projections based on past sales, consumer surveys, focus group testing, and other sources. Even though parties to a license negotiation will usually not have precise data about future usage, they often have rough estimates as to the expected frequency of use. This quantitative

information, assuming it meets admissibility requirements, ought to be given its proper weight, as determined by the circumstances of each case.

On the other hand, we have never laid down any rigid requirement that damages in all circumstances be limited to specific instances of infringement proven with direct evidence. Such a strict requirement could create a hypothetical negotiation far-removed from what parties regularly do during real-world licensing negotiations. As shown by the evidence in this case, companies in the high-tech computer industry often strike licensing deals in which the amount paid for a particular technology is not necessarily limited to the number of times a patented feature is used by a consumer. A company licensing a patented method often has strong reasons not to tie the royalty amount strictly to usage. The administrative cost of monitoring usage can be prohibitively expensive. Furthermore, with some inventions, say for example a method of detecting fires, value is added simply by having the patented invention available for use. *Cf. Hanson*, 718 F.2d at 1080-81 (approving a reasonable royalty not based on "actual use of the snowmaking machinery" but on what a party would have paid to have the machine available to use). Thus, potential licensors and licensees routinely agree to royalty payments regardless of whether the invention is used frequently or infrequently by the consumer.

With the foregoing in mind, we observe that the evidence of record is conspicuously devoid of any data about how often consumers use the patented date-picker invention. In one respect, Lucent believes the damages award is supported by the pervasive use of forms throughout the three software programs. What

this position lacks is the requisite focus on the infringed claim. The damages award can't be supported by evidence that the infringers also used additional, non-infringing features. Only when the date-picker is used to fill out a form does infringement occur. All other means of filling out a form, such as typing in the entire date, do not infringe. The damages award ought to be correlated, in some respect, to the extent the infringing method is used by consumers. This is so because this is what the parties to the hypothetical negotiation would have considered. Lucent tries to stretch the claim scope so that claim 19 covers all pop-up tools. If this were the proper claim construction, we might have to reverse the validity ruling. But the claim construction—which neither party has appealed—is not so broad.

Furthermore, Lucent's reliance on *Dynacore* is unavailing. As we noted above, substantial evidence supports the jury's verdict of indirect infringement by Microsoft. But all the circumstantial evidence supports is the jury's implicit finding that at least one person performed the patented method one time in the United States sometime during the relevant period. Beyond that finding, all the jury had was speculation. No evidence describes how many Microsoft Outlook users had ever performed the patented method or how many times. Lucent had the burden to prove that the extent to which the infringing method has been used supports the lump-sum damages award.

4. Other Factors

Other *Georgia-Pacific* factors applicable here include "[t]he nature and scope of the license, as exclusive or nonexclusive" (Factor 3); "[t]he licensor's established policy and marketing program to maintain his patent monopoly" (Factor 4); "[t]he commercial relationship

between the licensor and the licensee" (Factor 5); "[t]he established profitability of the product made under the patent" (Factor 8); "[t]he utility and advantages of the patent property over the old modes or devices" (Factor 9); and "[t]he portion of the profit or of the selling price that may be customary . . . to allow for the use of the invention" (Factor 12). 318 F.Supp. at 1120. To the extent these factors are relevant, they appear somewhat to offset one another.

For instance, Factor 8, the profitability of the product made, supports a higher versus a lower reasonable royalty, given the unrebutted evidence that the products at issue are sold with an approximately 70-80% profit margin. Contrasting this evidence are Factors 3 and 9. Non-exclusive licenses generally command lower royalties. *See* Parr, *supra*, at 64 ("Typically, higher royalty rates are associated with license agreements that provide the licensee with exclusive rights to use the IP."). And, from the evidence presented, the infringing use of the date-picker seems to have, at best, only a slight advantage over what is arguably the closest prior art. We are mindful, however, that a jury could have reasonably concluded otherwise with several of the factors mentioned here. Even so, such reasonable conclusions, in this case, cannot overcome the substantial infirmities in the evidence for the other factors detailed above.

5. Conclusion on Lump-Sum Reasonable Royalty

Having examined the relevant *Georgia-Pacific* factors, we are left with the unmistakable conclusion that the jury's damages award is not supported by substantial evidence, but is based mainly on speculation or guesswork. When the evidence is viewed *in toto*, the jury's award of a lump-sum payment of

about $358 million does not rest on substantial evidence and is likewise against the clear weight of the evidence. The evidence does not sustain a finding that, at the time of infringement, Microsoft and Lucent would have agreed to a lump-sum royalty payment subsequently amounting to approximately 8% of Microsoft's revenues for the sale of Outlook (and necessarily a larger percentage of Outlook's profits). We need not identify any particular *Georgia-Pacific* factor as being dispositive. Rather, the flexible analysis of all applicable *Georgia-Pacific* factors provides a useful and legally-required framework for assessing the damages award in this case. Furthermore, we do not conclude that the aforementioned license agreements (or other evidence) cannot, as a matter of law, support the damages award in this case. Instead, the evidence as presented did not reach the "substantial evidence" threshold and therefore no reasonable jury could have found that Lucent carried its burden of proving that the evidence, under the relevant *Georgia-Pacific* factors, supported a lump-sum damages award of $357,693,056.18.

We admit that the above analysis focuses on Microsoft Outlook, not the other two software programs. Because the damages award with respect to infringement by Outlook is not supported by the evidence but is against the clear weight of the evidence, a new trial on damages is necessary. We therefore need not specifically address the evidence as it relates to Microsoft Money and Windows Mobile. We leave that to the jury or court to assess on remand. We acknowledge that the factual findings based on the pertinent *Georgia-Pacific* factors may not be identical for all three products. For example, the tools that practice the infringing method may be incorporated more (or less) extensively throughout

Windows Mobile and Microsoft Money than in Outlook.

Creating a licensing agreement for patented technology is, at best, an inexact science. In actual licensing negotiations, willing parties negotiating at arms-length do not necessarily generate and analyze precise economic data concerning the perceived value of a patented invention. A complicated case this was, and the damages evidence of record was neither very powerful, nor presented very well by either party. Most jury damages awards reviewed on appeal have been held to be supported by substantial evidence. *See* Skenyon et al., *supra*, at § 3:20 (summarizing sixty-two damages cases). Nonetheless, on post-trial JMOL motions, district court judges must scrutinize the evidence carefully to ensure that the "substantial evidence" standard is satisfied, while keeping in mind that a reasonable royalty analysis "necessarily involves an element of approximation and uncertainty." *Unisplay*, 69 F.3d at 517.

B. Entire Market Value Analysis

Microsoft argues that the damages award must be reversed because the jury erroneously applied the entire market value rule. Despite the jury's indication on the verdict form that it was awarding a lump-sum reasonable royalty, Microsoft believes that the only way the jury could have calculated a figure of $357,693,056.18 was by applying a royalty percentage to a total sales figure of the infringing software products. Indeed, it is difficult to understand how the jury could have chosen its lump-sum figure down to the penny unless it used a running royalty calculation. Furthermore, as Microsoft explains in its brief, working the math backwards strongly suggests that the jury must have used some calculation of a rate

applied to the entire market value of the software. *See* Microsoft Response and Reply Br. 47 ("Applying Lucent's 8% rate to all of Microsoft's sales and half of Dell's, using a weighted average of 85% OEM prices and 15% retail prices, yields damages of $358,835,648—extremely close to the jury's award." (footnote omitted)). Alternatively, the jury could have simply used a somewhat lower rate, such as about 5.5%, applied to the total sales figure. Assuming that the jury did apply the entire market value rule, such application would amount to legal error for two reasons.

In one sense, our law on the entire market value rule is quite clear. For the entire market value rule to apply, the patentee must prove that "the patent-related feature is the 'basis for customer demand.'" *Rite-Hite*, 56 F.3d at 1549 (quoting *State Indus.*, 883 F.2d at 1580); *see also Bose Corp. v. JBL, Inc.*, 274 F.3d 1354, 1361 (Fed.Cir.2001); *TWM Mfg.*, 789 F.2d at 901 ("The entire market value rule allows for the recovery of damages based on the value of an entire apparatus containing several features, when the feature patented constitutes the basis for customer demand.").

In the distant past, before a contemporary appreciation of the economics of infringement damages, the Supreme Court seemingly set forth rigid rules concerning the entire market value rule. Shortly before the Civil War, in *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 491, 14 L.Ed. 1024 (1853), a case involving one of Cyrus McCormick's famous reaping machine inventions, the Court warned that it would be "a very grave error to instruct a jury 'that as to the measure of damages the same rule is to govern, whether the patent covers an entire machine or an

improvement on a machine.'" About a century and a quarter ago, in *Garretson v. Clark*, the Court expressed further concern about basing damages on the value of the entire product:

> When a patent is for an improvement, and not for an entirely new machine or contrivance, the patentee must show in what particulars his improvement has added to the usefulness of the machine or contrivance. He must separate its results distinctly from those of the other parts, so that the benefits derived from it may be distinctly seen and appreciated. . . . The patentee . . . must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative; or he must show, by equally reliable and satisfactory evidence, that the profits and damages are to be calculated on the whole machine, for the reason that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature.

111 U.S. 120, 121, 4 S.Ct. 291, 28 L.Ed. 371 (1884) (quotation marks omitted). And early last century, the Court elaborated on this theme:

> [An] invention may have been used in combination with valuable improvements made, or other patents appropriated by the infringer, and each may have jointly, but unequally, contributed to the profits. In such case, if plaintiff's patent only created a part of the profits, he is only entitled to recover that part of the net gains.

Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co., 225 U.S. 604, 614-15, 32 S.Ct. 691, 56 L.Ed. 1222 (1912).

Translating the Court's early stylistic description into a precise, contemporary, economic paradigm presents a challenge. Notwithstanding this obstacle, the objective of the Court's concern has been two-fold: determining the correct (or at least approximately correct) value of the patented invention, when it is but one part or feature among many, and ascertaining what the parties would have agreed to in the context of a patent license negotiation. Litigants must realize that the two objectives do not always meet at the same precise number. Furthermore, licensors of patented technology often license an invention for more or less than its true "economic value." Such is the inherent risk in licensing intangible assets that may have no established market value.

The first flaw with any application of the entire market value rule in the present case is the lack of evidence demonstrating the patented method of the Day patent as the basis—or even a substantial basis—of the consumer demand for Outlook. As explained above, the only reasonable conclusion supported by the evidence is that the infringing use of the date-picker tool in Outlook is but a very small component of a much larger software program. The vast majority of the features, when used, do not infringe. The date-picker tool's minor role in the overall program is further confirmed when one considers the relative importance of certain other features, e.g., e-mail. Consistent with this description of Outlook, Lucent did not carry its evidentiary burden of proving that anyone purchased Outlook because of the patented method. Indeed, Lucent's damages expert conceded

that there was no "evidence that anybody anywhere at any time ever bought Outlook, be it an equipment manufacturer or an individual consumer, . . . because it had a date picker." J.A 07821-22. And when we consider the importance of the many features not covered by the Day patent compared to the one infringing feature in Outlook, we can only arrive at the unmistakable conclusion that the invention described in claim 19 of the Day patent is not the reason consumers purchase Outlook. Thus, Lucent did not satisfy its burden of proving the applicability of the entire market value rule.

As for Windows Mobile and Microsoft Money, a jury's conclusion might possibly be different. At this point in the litigation, we again need not decide these issues. Because the damages award based on the infringing date-picker feature of Outlook is not supported by substantial evidence and is contrary to the clear weight of the evidence, the damages award must be vacated. When the case is remanded to the trial court for further proceedings consistent with this opinion, it may be helpful to analyze the three infringing software products independently.

The second flaw with any application of the entire market value rule in this case lies in the approach adopted by Lucent's licensing expert. He had first tried to apply the entire market value rule to the sale of the "infringing" computers loaded with the software, opining that Microsoft and Lucent would have agreed to a 1% royalty based on the entire price of the computer containing Outlook. In response, Microsoft filed a motion *in limine* to exclude such testimony, which the district court granted. At trial, Lucent's expert changed his opinion, contending that the royalty base should be the price of the software (and

not the entire computer) but also that the royalty rate should be increased to 8% (from 1%). This opinion contrasted starkly to the rates he proposed for the other patents in suit, which were in the 1 % range. In choosing 8%, he reasoned that, "in a typical situation, if one applied a royalty to a smaller patented portion in a computer as opposed to the entire computer using typically infringed patents, 8-percent . . . of the fair market value of the patented portion would equate to 1-percent of the fair market value of the entire computer."

What Lucent's licensing expert proposed here does not comport with the purpose of damages law or the entire market value rule. Lucent's expert tried to reach the damages number he would have obtained had he used the price of the entire computer as a royalty base. Being precluded from using the computer as the royalty base, he used the price of the software, but inflated the royalty rate accordingly. This cannot be an acceptable way to conduct an analysis of what the parties would have agreed to in the hypothetical licensing context. The approach of Lucent's expert ignores what the district court's evidentiary ruling tried to accomplish. The district court implicitly recognized that any damages computation based on the value of the entire computer using common royalty rates (e.g., 1-5%) would be excessive.

Furthermore, Lucent's expert admitted that there was no evidence that Microsoft had ever agreed to pay an 8% royalty on an analogous patent. *See* J.A. 07824 ("Q: Did you find one license where Microsoft ever agreed to pay an eight percent royalty on Outlook for a tiny little feature? A: I didn't see any Microsoft licenses on Outlook, frankly.").

Although our law states certain mandatory conditions for applying the entire market value rule, courts must nevertheless be cognizant of a fundamental relationship between the entire market value rule and the calculation of a running royalty damages award. Simply put, the base used in a running royalty calculation can always be the value of the entire commercial embodiment, as long as the magnitude of the rate is within an acceptable range (as determined by the evidence). Indeed, "[a]ll running royalties have at least two variables: the royalty base and the royalty rate." Nimmer & Dodd, *supra*, at § 7:5. Microsoft surely would have little reason to complain about the supposed application of the entire market value rule had the jury applied a royalty rate of 0.1% (instead of 8%) to the market price of the infringing programs. Such a rate would have likely yielded a damages award of less than Microsoft's proposed $6.5 million. Thus, even when the patented invention is a small component of a much larger commercial product, awarding a reasonable royalty based on either sale price or number of units sold can be economically justified. *See*, e.g., Kearns, 32 F.3d at 1544 (awarding a reasonable royalty of 90 cents per vehicle that had the infringing intermittent windshield wipers, when the average car price was approximately $4000 to $6000).

Some commentators suggest that the entire market value rule should have little role in reasonable royalty law. *See*, e.g., Mark A. Lemley, *Distinguishing Lost Profits From Reasonable Royalties*, 51 Wm. & Mary L.Rev. (forthcoming 2009) (manuscript at 2), *available at* http:// papers.ssrn.com/sol3/papers.cfm?abstract_id=1133173 (suggesting that "courts have distorted the reasonable royalty measure" by "importing inapposite concepts like the 'entire market

value rule' in an effort to compensate patent owners whose real remedy probably should have been in the lost profits category"); Amy Landers, *Let the Games Begin: Incentives to Innovation in the New Economy of Intellectual Property Law*, 46 Santa Clara L.Rev. 307, 362 (2006) ("The current iterations of the entire market value rule are inconsistent with the Patent Act's statutory language."). But such general propositions ignore the realities of patent licensing and the flexibility needed in transferring intellectual property rights. The evidence of record in the present dispute illustrates the importance the entire market value may have in reasonable royalty cases. The license agreements admitted into evidence (without objection from Microsoft, we note) highlight how sophisticated parties routinely enter into license agreements that base the value of the patented inventions as a percentage of the commercial products' sales price. There is nothing inherently wrong with using the market value of the entire product, especially when there is no established market value for the infringing component or feature, so long as the multiplier accounts for the proportion of the base represented by the infringing component or feature.

We note finally that several amici seemingly challenge the district court's instruction to the jury on the entire market value rule. *See* Brief for Ten Amici Curiae Technology-Based Companies at 11-12 (asserting that "the entire market value rule has no place in a reasonable royalty calculation"); *id.* at 15 ("Jurors are charged with the entire market value rule but are not given an apportionment charge. No Supreme Court authority justifies such a one-sided charge."); *id.* at 25 ("The two errors detailed above justify a reversal of the damages award in this case and, assuming that the patents are valid and

infringed . . . , a remand of the case for a new trial on damages. For the remand, this Court should provide more specific guidance for reasonable royalty calculations."). While the amicus brief is informative, we need not address its assertion regarding jury instructions given or not given, for the simple reason that neither party at trial challenged any damages instruction that was given nor proposed an instruction and objected when it was not given.

V. Lucent's Cross-Appeal

Lucent cross-appeals the district court's summary judgment of non-infringement of claims 1, 2, 6, 7, 10-12, 15, and 16 of the Day patent. These claims are apparatus claims containing means-plus-function elements not found in claims 19 and 21. As Lucent concedes, it did not provide any analysis of the source code of the accused programs. Lucent further did not identify the algorithms used in the accused products. Lucent's evidence, as Judge Brewster noted, did "nothing more than demonstrate that the accused products reach the same result; the evidence [did] not demonstrate circumstantially or otherwise anything about the steps used by the accused products to arrive at the result." Under our precedent, Judge Brewster's grant of summary judgment was not erroneous. *See Aristocrat Techs. Austl. Pty Ltd. v. Int'l Game Tech.*, 521 F.3d 1328, 1338 (Fed.Cir.), *cert. denied*, __ U.S. __ , 129 S.Ct. 754, 172 L.Ed.2d 727 (2008).

CONCLUSION

For the foregoing reasons, we affirm the district court's denial of Microsoft's JMOL motion for non-infringement. We reverse the district court's denial of Microsoft's JMOL regarding the damages award,

vacate the award, and remand for a new trial on damages.

AFFIRMED IN PART, VACATED IN PART, and REMANDED

COSTS

No costs.

APPENDIX B

UNITED STATES DISTRICT COURT,
S.D. CALIFORNIA.

Nos. 07-CV-2000-H (CAB), 02-CV-2060-B (CAB),
03-CV-0699-B (CAB), 03-CV-1108-B (CAB).

LUCENT TECHNOLOGIES, INC. and
MULTIMEDIA PATENT TRUST,
Plaintiffs and Counter-Defendants,

v.

GATEWAY, INC., *et al.*,
Defendants and Counterclaimants.

and

MICROSOFT CORPORATION,
Intervenor and Counterclaimant and Related Claims.

June 19, 2008.

ORDER ON POST-TRIAL MATTERS FOR UNITED STATES PATENT NUMBERS 4,439,759; 4,763,356; 4,958,226; AND 5,347,295; INCLUDING:

(1) MOTIONS FOR JUDGMENT AS A MATTER OF LAW, NEW TRIAL, OR REMITTITUR; AND

(2) RULINGS ON EQUITABLE MATTERS TRIED TO THE COURT

MARILYN L. HUFF, *District Judge*.

This order addresses the remaining post-trial questions in this case, including motions for judgment as a matter of law ("JMOL"), motions for new trial, and rulings on equitable matters tried to the Court. The trial involved four United States Patents: 4,439,759 ("Fleming '759" or "'759"); 4,763,356 ("Day '356" or "'356"); 4,958,226 ("Haskell '226" or "'226"); 5,347,295 ("Agulnick '295" or "'295"). Lucent Technologies, Inc. ("Lucent") asserted the '356 and '295 patents against Microsoft Corporation ("Microsoft") and Dell Inc. ("Dell" and collectively with Microsoft "Defendants"). Lucent asserted the '759 patent against Microsoft only. Multimedia Patent Trust ("MPT"), a Delaware trust with Lucent as the primary beneficiary, asserted the '226 patent against Microsoft only.

The parties filed their initial briefs on these post-trial matters on May 5, 2008. MPT moved for JMOL, new trial, and entry of judgment on equitable matters related to the '226 patent. (Doc. No. 759.) Lucent moved for JMOL and new trial on the '759 and '356 patents. (Doc. No. 760.) Microsoft moved for JMOL, new trial, or remittitur on various issues related to the '356, '295, and '226 patents. (Doc. No. 770.) Dell joined in sections of Microsoft's motions applicable to it. (Doc. No. 792.) Microsoft also moved for entry of judgment on the equitable matters related to the '226 patent yet to be decided by the Court. (Doc. No. 772.)

The parties filed their responsive briefing on May 19, 2008. Dell filed an opposition to Lucent's motion regarding the '759 and '356 patents. (Doc. No. 804.) Microsoft filed an opposition to MPT's motion regarding the '226 patent. (Doc. No. 805.) MPT opposed Microsoft's combined motion to the extent that it

addressed the '226 patent. (Doc. No. 808.) Lucent opposed Microsoft's combined motion to the extent that it addressed the '356 and '295 patents. (Doc. No. 809.) MPT filed an opposition to Microsoft's motion for entry of judgment on the bench trial issues. (Doc. No. 810.)

The parties filed their reply briefs on May 27, 2008. Microsoft filed replies in support of its post-trial motions and motion for entry of judgment on bench trial issues. (Doc. Nos. 826-28.) Lucent filed a reply in support of its motion regarding the '759 and '356 patents. (Doc. No. 830.) MPT filed a reply in support of its motion regarding the '226 patent. (Doc. No. 831.)

The Court held a hearing on these matters on June 13, 2008. Robert Appleby, Paul Bondor, John Desmarais, Jeanne Heffernan, James Marina, and Michael Stadnick appeared for Lucent and MPT. John Gartman, Juanita Brooks, and Roger Denning appeared for Microsoft. Joseph Micallef appeared for Dell.

Background

I. Overview of Infringement Liability

The underlying trial concerned the alleged infringement of four patents asserted by Lucent and MPT against Microsoft and Dell.[1] On April 4, 2008, the jury returned a special verdict for all four patents, including advisory verdicts on certain equitable issues to be decided by the Court. (Doc. No. 735.) The jury found that Microsoft infringed the '356 patent, and

[1] Microsoft and Dell also asserted counterclaims for tortious interference with prospective economic advantage, relating to Lucent's allegedly improper creation of MPT. The jury found for Lucent on this issue, and Defendants did not raise it in their post-trial motions.

that both Microsoft and Dell infringed the '295 patent. The jury found no infringement of either the '226 or '759 patents. The jury found Microsoft liable to Lucent for $357,693,056.18 based on infringement of the '356 patent. For infringement of the '295 patent, the jury found Microsoft liable to Lucent for $10,350,000 and Dell liable for $51,000.

II. Day '356

The Patent and Trademark Office ("PTO") issued the '356 patent, entitled "Touch Screen Form Entry System," on August 9, 1988, based on an application filed December 11, 1986. Only method claims 19 and 21 were at issue in this trial. Claim 19 is an independent claim, and claim 21 is a related dependent claim. Claim 19 states:

> A method for use in a computer having a display comprising the steps of
>
> displaying on said display a plurality of information fields,
>
> identifying for each field a kind of information to be inserted therein,
>
> indicating a particular one of said information fields into which information is to be inserted and for concurrently displaying a predefined tool associated with said one of said fields, said predefined tool being operable to supply information of the kind identified for said one fields said tool being selected from a group of predefined tools including a tool adapted to supply an individual entry from a menu of alternatives and at least a tool adapted to allow said user to compose said information, and

inserting in said one field information that is derived as a result of said user operating said displayed tool.

Claim 21 further limits the step of "displaying said pattern" to include "the step of displaying one or more of said information fields as a bit-mapped-graphics field."

For this patent, Lucent submitted evidence of indirect infringement. Lucent asserted claim 19 against Microsoft and Dell based on versions of Microsoft Money, Microsoft Outlook, and Windows Mobile. Lucent also asserted claim 19 against Dell only, based on sales of Quicken versions 2000 through 2006. Lucent asserted claim 21 against Microsoft and Dell based only on the various versions of Windows Mobile.

The jury found Microsoft liable on claim 19 as to all three products and on claim 21 as to Windows Mobile, and it returned a finding of no infringement by Dell.[2] The verdict did not distinguish between inducing and contributory infringement. The jury awarded a single lump sum against Microsoft for all products involved.

Defendants presented affirmative defenses of anticipation and obviousness. The jury found for Lucent on both.

III. Haskell '226

The PTO issued the '226 patent, entitled "Conditional Motion Compensated Interpolation of Digital Motion Video," on September 18, 1990, based on an

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[2] The jury also found that Lucent had provided Dell with pre-suit notice regarding the '356 patent, and Dell did not bring a motion attacking this finding.

application filed September 27, 1989. At trial, Lucent only asserted claim 12, a means-plus-function apparatus claim which states:

> A circuit responsive to coded video signals where the video signals comprise successive frames and each frame includes a plurality of blocks and where the coded video signals comprise codes that describe deviations from approximated blocks and codes that describe deviations from interpolated-blocks, comprising:
>
> means for developing block approximations from said codes that describe deviations from approximated blocks; and
>
> means responsive to said block approximations and to said codes that describe deviations from interpolated blocks to develop said interpolated blocks.

MPT introduced evidence of both direct and indirect infringement by Microsoft. The accused products included Microsoft software and hardware containing an MPEG-1, MPEG-2, or VC-1[3] video decoder, referring to industry standards for video compression and playback used for various products including DVDs and HD DVDs. Specifically, MPT accused Microsoft based on Windows operating system versions 95B through Vista, the Microsoft Xbox 360 video game system, and Windows Media Player versions 9 through 11.

The jury found that none of Microsoft's accused products had infringed claim 12. The jury also found that claim 12 was invalid for obviousness, though not

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[3] VC-1 decoders are also referred to in the record as WMV-9 decoders.

invalid for anticipation. Furthermore, the Court asked the jury to return advisory verdicts on Microsoft's defenses of laches and inequitable conduct regarding the '226 patent. The jury recommended that Lucent be barred from obtaining pre-suit damages due to laches, but found no inequitable conduct.

IV. Agulnick '295

The PTO issued the '295 patent, entitled "Control of a Computer Through a Position-Sensed Stylus," on September 13, 1994, based on an application filed October 31, 1990. At trial, Lucent only asserted claim 1, a means-plus-function apparatus claim which states:

> An apparatus for controlling a computer system, the computer system comprising a screen for displaying information and a stylus having a tip for inputting information into the computer, including:
>
> first detecting means coupled to said computer for detecting a stroke of the stylus tip in contact with the screen;
>
> second detecting means coupled to said computer for detecting a departure of the stylus tip from the screen;
>
> means coupled to said computer for defining termination of a gesture comprising at least one stroke in response to said departure of the stylus tip;
>
> means coupled to said computer for recognizing a plurality of said gestures, said recognizing means including means for comparing each said gesture to at least one predefined shape;

> means coupled to said computer for implementing each said recognized gesture, said implementing means including means for performing a predetermined action associated with each said predefined shape, said predetermined action being determined by the context in which said gesture was used, including a first context in which said action is executed upon an operating system level object and a second context in which said action is executed upon an application level object.

Lucent introduced evidence of direct and indirect infringement by Dell, and evidence of indirect infringement by Microsoft. The accused products were Tablet PC Computers installed with the Windows XP Tablet PC Edition operating system. Lucent based its accusations against Microsoft on all sales of Windows XP Tablet PC Edition, while its accusations against Dell were limited to Dell's sales of Windows XP Tablet PCs.

The jury returned a finding that both Microsoft and Dell had infringed claim 1. The jury awarded Lucent damages of $10,350,000 from Microsoft and $51,000 from Dell.

Defendants presented affirmative defenses of anticipation and obviousness. The jury found for Lucent on both.

V. Fleming '759

The PTO issued the '759 patent, entitled "Terminal Independent Color Memory for a Digital Image Display System," on March 27, 1984, based on an application filed May 19, 1981. At trial, Lucent only asserted claim 1, a means-plus-function apparatus claim which states:

In a digital image display system:

a memory for storing color data values;

processing means responsive to a predetermined command and data sequence comprising at least one command, the processing means decoding the predetermined command and data sequence the predetermined command and data sequence selecting one of a plurality of modes of access to color data values, the modes comprising:

a first mode of access wherein an in-use foreground color is directly specified as a color data value;

a second mode of access wherein the in-use foreground color is specified as an index into the color memory; and

a third mode of access wherein the in-use foreground color and an in-use background color are specified as indexes into the color memory; and

display means responsive to the processing means, the display means displaying the colors associated with the color data values accessed by the selected mode.

Lucent introduced evidence of both direct and indirect infringement by Dell. The accused products covered all computer systems sold by Dell between October 20, 1998, and May 19, 2001, that included a version of the Windows operating system. Lucent based its accusations on the presence of the Windows graphics device interface ("GDI") in these products.

The jury found that Lucent failed to prove that it had provided Dell with pre-suit notice of infringement for this patent. Significantly, the jury also

returned a finding of no infringement. Dell asserted affirmative defenses of anticipation and obviousness, and the jury found for Lucent on both. Furthermore, the Court asked the jury to return advisory verdicts on Microsoft's defenses of laches and inequitable conduct regarding the '759 patent. The jury recommended that Dell should not prevail on either equitable defense.

Discussion

I. Standards for JMOL, New Trial, and Remittitur

In patent cases, the standards on motions for judgment as a matter of law or new trial are questions of regional circuit law. *Finisar Corp. v. DirecTV Group*, 523 F.3d 1323, 1328 (Fed.Cir.2008). Judgment as a matter of law is available where "a reasonable jury would not have a legally sufficient evidentiary basis to find for the party on that issue." Fed.R.Civ.P. 50(a)(1). A party may renew the motion when not granted at trial. Fed.R.Civ.P. 50(b). A court must uphold the jury's verdict if it is supported by substantial evidence. *Wallace v. City of San Diego*, 479 F.3d 616, 624 (9th Cir.2007). "Substantial evidence is evidence adequate to support the jury's conclusion, even if it is also possible to draw a contrary conclusion from the same evidence." *Id.* (quoting *Johnson v. Paradise Valley Unified Sch. Dist.*, 251 F.3d 1222, 1227 (9th Cir.2001)). Substantial evidence requires only "such relevant evidence as a reasonable mind might accept as adequate to support a conclusion." *Blanton v. Anzalone*, 813 F.2d 1574, 1576 (9th Cir.1987) (quoting *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1014 (9th Cir.1985)). The court must not weigh the evidence and must "disregard all evidence favorable to the moving party that the jury is not required to believe." *Wallace*, 479

F.3d at 624. Furthermore, the court draws all reasonable inferences in favor of the nonmoving party. *Id.* Judgment as a matter of law is only appropriate if, once the court has applied this standard, it concludes that the evidence permits only one reasonable conclusion that is contrary to the jury's verdict. *Id.*

A party may also move for a new trial when requesting judgment as a matter of law following a jury trial. Fed.R.Civ.P. 50(b), 59. Whether to grant a new trial is a matter of the trial court's discretion. *City Solutions, Inc. v. Clear Channel Communications*, 365 F.3d 835, 843 (9th Cir.2004). The court may grant a new trial if "the verdict is contrary to the clear weight of the evidence, or is based upon evidence which is false, or to prevent, in the sound discretion of the trial court, a miscarriage of justice." *United States v. 4.0 Acres of Land*, 175 F.3d 1133, 1139 (9th Cir.1999) (quoting *Oltz v. St. Peter's Cmty. Hosp.*, 861 F.2d 1440, 1452 (9th Cir.1988)). To make a "clear weight of the evidence" determination, the court weighs the evidence as the court saw it. *Molski v. M.J. Cable, Inc.*, 481 F.3d 724, 729 (9th Cir.2007) (quoting *Murphy v. City of Long Beach*, 914 F.2d 183, 187 (9th Cir.1990)). If a court concludes that a new trial is appropriate due to excessive damages, the court may exercise its discretion to grant a new trial either without qualification, or conditioned on the winner's refusal to accept a reduction in damages, known as remittitur. *See Gasperini v. Ctr. for Humanities, Inc.*, 518 U.S. 415, 433, 116 S.Ct. 2211, 135 L.Ed.2d 659 (1996).

II. Day '356

A. Validity

1. Anticipation

Defendants seek judgment as a matter of law that a system known as the Foreign Exchange Front End ("FXFE") anticipated claim 19 under 35 U.S.C. §§ 102(b) or 102(g). Under section 102(b), patent protection may be unavailable where the invention was "in public use . . . more than one year prior to the date of the application . . . ." Under section 102(g), patent protection may be unavailable where "before . . . invention thereof, the invention was made in this country by another inventor who had not abandoned, suppressed, or concealed it." An anticipating public use or prior invention must include every limitation of the patented invention. *Netscape Communications Corp. v. Konrad*, 295 F.3d 1315, 1321 (Fed.Cir.2002); *Hybritech Inc. v. Monoclonal Antibodies, Inc.*, 802 F.2d 1367, 1379 (Fed.Cir.1986). Anticipation, like other invalidity defenses, requires proof by clear and convincing evidence. *Netscape Communications Corp.* 295 F.3d at 1320.

The application for the '356 patent was filed on December 11, 1986. In January 1984, Datamation magazine published an article describing a prototype touch-screen system used by Chemical Bank, through which currency traders could fill out forms electronically. (DX AOD (Datamation article); AOE (enlargement of Datamation article's photograph).) The system was known as the Foreign Exchange Front End. The Datamation article included a single photograph of the FXFE display, with limited detail.

Judgment as a matter of law or new trial is not appropriate because the jury could have reasonably

rejected the credibility of Defendants' witnesses, found that the FXFE did not include all elements of the method in claim 19, or found that the FXFE was not prior art under section 102. The evidence is sufficient to support a finding that the FXFE did not include "indicating a particular one of said information fields into which information is to be inserted." The Datamation article did not describe this capability. (*See* DX AOD.) Defendants argue that a single FXFE photograph, of limited clarity, shows that a particular on-screen button is highlighted. (*See* DX AOE.) The jury could have concluded that this was not a "field" into which information could be entered.

Furthermore, applying the appropriate standards for these proceedings, there is a limited showing of whether the FXFE even involved "information fields" into which information was "inserted," within the meaning of the patent. The available image is limited in detail, and the text merely refers to entering information into "the system." (*See, e.g.*, DX AOD at 148 ("For instance, when the user hits the 'broker' cell on the right, a list of brokers appears on the left; the trader then hits the name of the broker . . . and that information is entered into the system."); DX AOE.) Particularly given the standard of clear and convincing evidence, the jury could have reasonably concluded that Defendants failed to meet their burden on these elements as well. Lucent also argued that the FXFE did not have "graphical" tools or "concurrently display" a tool with an information field, though the Court concludes that there are ample other grounds to support the jury's finding of no anticipation.

The jury also could have concluded that the FXFE did not meet the requirements of section 102(b) or

102(g) prior art. Viewed under the applicable standards, the evidence indicates that the FXFE was developed mostly or entirely outside the United States, and still in a developmental or prototype form. Furthermore, the nature and circumstances of the demonstration are unclear in many respects. The jury could have reasonably concluded that the use was not sufficiently public or that any prior invention was abandoned. Public use is determined under the totality of the circumstances, and the Court concludes that this demonstration does not constitute clear and convincing evidence of public use as a matter of law. *Cf. Harrington Mfg. Co. v. Powell Mfg. Co.*, 815 F.2d 1478, 1480-81 (Fed.Cir.1986) (demonstration to reporter was sufficiently public use where evidence included "clear indication of . . . commercial motive," and indication that device operated "flawlessly"). The jury could draw many inferences against Defendants sufficient to conclude that the use was not public. For example, even if made to a reporter, it is unclear to what extent the demonstration was completely functional.

Also, there is no dispute that the touch-screen FXFE, as demonstrated, was not commercialized. "[A] first inventor may seek to avoid a determination of abandonment by showing that he or she marketed or sold a commercial embodiment of the invention or described the invention in a publicly disseminated document." *Checkpoint Sys., Inc. v. U.S. Int'l Trade Comm'n*, 54 F.3d 756, 762 (Fed.Cir.1995). The ambiguities surrounding the FXFE demonstration, however, cast serious doubt on whether it preserved sufficient information about the system in the public domain to avoid a finding of abandonment. *See id.* (citing *Palmer v. Dudzik*, 481 F.2d 1377, 1387 (C.C.P.A.1973), for the proposition that "to negate a finding of suppression or concealment, the public

must have gained knowledge of the invention which will insure its preservation in the public domain"). In summary, there is substantial evidence in the record to support the jury's determination of no anticipation. Furthermore, the Court concludes that the jury's finding is not against the clear weight of the evidence.

2. Obviousness

Defendants challenge the jury's finding that the '356 patent was not obvious. As prior art, they assert both the Datamation article and the FXFE system described above, along with J.K. Lasser's Your Money Manager software ("YMM") and the Windows 1.01 calculator. The obviousness defense requires proof by clear and convincing evidence. *Takeda Chem. Indus., Ltd. v. Alphapharm Pty., Ltd.*, 492 F.3d 1350, 1355 (Fed.Cir.2007) "The ultimate judgment of obviousness is a legal determination." *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 127 S.Ct. 1727, 1745, 167 L.Ed.2d 705 (2007) (citing *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 17, 86 S.Ct. 684, 15 L.Ed.2d 545 (1966)). While courts therefore need not give deference to the jury's ultimate legal determination, courts still give deference to the jury's underlying findings of fact. *See Finisar Corp. v. DirecTV Group, Inc.*, 523 F.3d 1323, 1338 (Fed.Cir.2008) ("[T]his court reviews a jury's conclusions on obviousness, a question of law, without deference, and the underlying findings of fact, whether explicit or implicit within the verdict, for substantial evidence.") (quoting *Dippin' Dots, Inc. v. Mosey*, 476 F.3d 1337, 1343 (Fed.Cir. 2007)). These underlying findings include "the scope and content of the prior art, the differences between

the prior art and the claims at issue, the level of ordinary skill in the pertinent art . . . ." *Id.* at 1338-39.[4]

When determining obviousness, "neither the particular motivation nor the avowed purpose of the patentee controls." *KSR Int'l Co.*, 127 S.Ct. at 1741-42. Instead, courts should determine whether the "objective reach of the claim" encompasses obvious subject matter. *Id.* at 1742. This may include "noting that there existed at the time of invention a known problem for which there was an obvious solution encompassed by the patent's claims." *Id.* "[T]he results of ordinary innovation are not the subject of exclusive rights under the patent laws." *Id.* at 1746. However, courts must avoid "falling prey to hindsight bias," "ex post reasoning," and "[r]igid preventative rules that deny factfinders recourse to common sense." *Id.* at 1742-43. Furthermore, "when the prior art teaches away from combining certain known elements, discovery of a successful means of combining them is more likely to be nonobvious." *Id.* at 1740.

"A patent composed of several elements is not proved obvious merely by demonstrating that each of its elements was, independently, known in the prior art." *KSR Int'l Co.*, 127 S.Ct. at 1741. A combination is likely nonobvious if the elements work together "in an unexpected and fruitful manner." *Id.* at 1740. In contrast, a patent is likely to be obvious if it merely yields a predictable result by substituting one element for another known in the field. *Id.*

On this record, the jury could have reasonably concluded that Defendants failed to provide clear and

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[4] Secondary considerations, or "objective indicia of nonobviousness," may also be considered, though they are not at issue here. *See Finisar*, 523 F.3d at 1339.

convincing evidence that the '356 patent is invalid for obviousness. First, there are factual problems with treating the FXFE as prior art. There were factual questions with whether the FXFE constitutes a prior public use or prior invention under sections 102(b) or 102(g). In this context the scope of prior art for obviousness purposes implicates the same considerations as section 102 prior art. *Lucent Techs., Inc. v. Gateway, Inc.*, 537 F.Supp.2d 1095, 1110 n. 4 (S.D. Cal.2008). Therefore, the jury was not required to accept the FXFE as prior art for the obviousness analysis. Also, with regard to the Datamation article, there were substantial uncertainties about the capabilities of the system described. The jury could have reasonably taken a narrow view of the descriptions offered by the article and its single photograph, which lacked any fine detail or portrayal of the FXFE interface at different steps in the process.

Regarding the YMM software, Lucent argued that it does not involve "graphical" tools, since its display is composed of text and symbols. It also argued that YMM does not permit "pointing" to the display keys of any tool, since the user controls Your Money Manager only using the keyboard, without aid of a mouse, touch pad, or similar device. Around the time of the Day '356 patent, the personal computer industry was undergoing a change from text-based, keyboard-only operation to operation using a keyboard and mouse to control graphical user interfaces. Based on the evidence, the jury could have concluded that there was insufficient evidence of obviousness.

The Court concludes that substantial evidence supports the jury finding of no obviousness. Lucent introduced evidence, including its expert's opinion and testimony from the designer of YMM, that

adapting YMM to a mouse-driven graphical interface would not have been an obvious or trivial undertaking. For example, the designer of YMM stated that "from a technical and business standpoint, it made no sense to even consider" this adaptation to an interface like Windows 1.01. (Trial Tr. XII 215:13-216:16.) The jury could reasonably have accepted this testimony, and the corresponding opinion of Lucent's technical expert, while rejecting that of Defendants' expert. The patented technology is more than 20 years old, the patent term having expired in 2006. While users of today's computers may find many graphical interfaces intuitive, and hardware advances have eased the implementation of more sophisticated controls, the obviousness analysis must avoid hindsight bias, as the jury did here. Neither JMOL or a new trial is appropriate on the jury's finding that the '356 patent is not invalid for obviousness.

B. Infringement

1. The Jury's Finding of Infringement by Microsoft

a. Whether Outlook Contains a Composition Tool

A finding of infringement requires that every limitation of a claim be present, either literally or by the doctrine of equivalents. *Odetics, Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1268 (Fed.Cir.1999). "A determination of non-infringement, either literal or under the doctrine of equivalents, is a question of fact." *Miken Composites, L.L.C. v. Wilson Sporting Goods, Co.*, 515 F.3d 1331, 1336 (Fed.Cir.2008).

Microsoft challenges the jury's finding of infringement for Microsoft Outlook ("Outlook"), contending that Outlook does not contain a "composition tool,"

within the meaning of the claims.[5] A composition tool is one limitation in the third step of method claim 19, which requires:

> indicating a particular one of said information fields into which information is to be inserted and for concurrently displaying a predefined tool associated with said one of said fields, said predefined tool being operable to supply information of the kind identified for said one field said tool being selected from a group of predefined tools including a tool adapted to supply an individual entry from a menu of alternatives and at least a tool adapted to allow said user to compose said information.

The Court concludes that substantial evidence supports the jury's finding that Outlook infringes claim 19. Outlook is a software product that provides the user with a number of services including e-mail, calendar and appointment management, and management of contact information. Microsoft's documentation describes form entry as a central aspect of Outlook's user interface. (*See, e.g.*, PX 1138B (Outlook help file stating that "Every Outlook item . . . is based on a form.").) Outlook includes a calendar tool to assist the user in entering dates on its form for specifying appointment information. The tool displays a monthly calendar as a grid of numbered dates, along with graphical controls that allow the user to scroll to adjacent months or skip directly to a

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[6] Dell joined some, but not all aspects of Microsoft's challenge to the jury's infringement finding. (*See* Doc. No. 792.) Dell did not join in certain arguments regarding the sufficiency of evidence of indirect infringement by Microsoft, nor did it join in Microsoft's argument that the findings as to Microsoft and Dell are inconsistent.

different month and year. Within the currently displayed month, the user can select a particular date. Once the user defines a date with this tool, the software enters the numerical day, month, and year into the corresponding field in the appointments form. (*See, e.g.*, PX 697 (screenshot); Trial Tr. VI 117:11-118:12 (testimony accompanying video demonstration).)

Much like the number pad tool shown in the patent, the calendar tool in Outlook allows the user to select a series of numbers, corresponding to the day, month, and year, using graphical controls. (*Cf.* '356 4:18-21 ("The number entry tool . . . operates similar to a standard hand-held calculator in which the user composes a string of numbers by touching individual ones of the displayed buttons . . . .").) Both competing experts testified that the normal definition of "composition" includes combining or putting together different parts. (*See* Trial Tr. VI 111:5-112:11 (Mr. Tognazzini, for Lucent); Trial Tr. XII 174:18-175:9 (Mr. Buscaino, for Microsoft).)

The jury rejected Microsoft's argument that the Outlook calendar tool is instead a "menu of alternatives." The number of possible dates in the Outlook calendar exceeds one million. (Trial Tr. V 135:17-136:6.) The patent states that, with a menu of alternatives, "all that the user needs to do is point to one of the entries . . . ." ('356 3:55-56.) With the calendar tool, however, the user may change the various elements of the date before settling on a final entry. The user cannot reach all options without making multiple selections. The Court concludes that there was substantial evidence permitting the jury to conclude that the Outlook calendar tool allowed the user to compose the date. Viewing all the evidence from the

trial, the jury could have reasonably concluded that the calendar tool allowed the separate selection and combination of day, month, and year, thus making it a composition tool.

b. Whether Windows Mobile Contains a Composition Tool

Microsoft also argues that there can be no infringement of Windows Mobile because the Windows Mobile keyboard is not a composition tool that is "a predefined tool associated with said one of said fields." The Court disagrees. First, contrary to Microsoft's argument, the keyboard tool was not the only alleged composition tool offered by Lucent for Windows Mobile. The passage of Lucent's expert testimony cited by Microsoft for this supposed limitation clearly asserts that the expert "found several tools that allow you to compose information," not just the keyboard tool. (*See* Trial Tr. V 155:24-156:4.) Lucent also introduced evidence of both a Windows Mobile calendar tool, similar to that already discussed for Microsoft Outlook, and a Windows Mobile number pad tool. (*See, e.g.*, PX 832A (screenshots of Windows Mobile tools).)

Microsoft further argues that the keyboard tool is not "associated with said one of said fields," as required by claim 19, because it is an operating system level tool that may be used by a variety of applications. Though the jury could have relied on one of the other asserted composition tools, the Court also concludes that there was substantial evidence to support the conclusion that the keyboard tool was a composition tool "associated with said one of said fields." Microsoft does not dispute that the keyboard tool may be used by various applications running on a Windows Mobile system. (*See, e.g.*, Microsoft's Mem.

P. & A. Supp. Combined Mot. JMOL, New Trial, Remittitur, at 17 ("[Windows Mobile keyboard] is provided at the operating system level for use across many different applications . . . .").) Lucent introduced substantial evidence that the keyboard tool is used by these applications to input information directly into active fields, sufficient for the jury to conclude that it is "associated with said one of said fields." (*See, e.g.*, Trial Tr. V 154:20-156:4, XVII 107:18-108:23.)

Finally, Microsoft challenges the credibility of Lucent's expert, Mr. Tognazzini, regarding the keyboard tool. The jury also assessed his credibility and rendered its verdict. Viewed under the standards for post-trial motions, there is substantial evidence to support Mr. Tognazzini's testimony.

c. Proof of Specific Acts of Infringement

Microsoft seeks judgment as a matter of law based on Lucent's purported failure to introduce evidence of specific acts of direct infringement. Proof of indirect infringement by inducement requires, in part, that the plaintiff prove there has been direct infringement. *Symantec Corp. v. Computer Assocs. Int'l, Inc.*, 522 F.3d 1279, 1292 (Fed.Cir.2008). Since the asserted claims are method claims, proof of direct infringement requires a showing that the claimed process was performed, not merely that defendant sold an apparatus capable of infringement. *Ormco Corp. v. Align Tech., Inc.*, 463 F.3d 1299, 1311 (Fed. Cir.2006).

A plaintiff may prove direct infringement using circumstantial evidence. In *Symantec Corp.*, the Federal Circuit vacated a summary judgment of non-infringement on an inducement claim, observing that "[the patentee] has produced sufficient circumstantial

evidence of direct infringement . . . even though [it] has not produced evidence that any particular customer has directly infringed the . . . patent. Direct evidence of infringement, as opposed to circumstantial evidence, is not necessary." *Symantec Corp.*, 522 F.3d at 1292-93; *see Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1363 (Fed.Cir.2006) (concluding that patentee could rely on circumstantial evidence, including instruction sheets provided with product, to prove direct infringement); *Arthrocare Corp. v. Smith & Nephew, Inc.*, 406 F.3d 1365, 1375-77 (Fed.Cir. 2005) (affirming denial of judgment as a matter of law of no indirect infringement based, in part, on "strong circumstantial evidence" of direct infringement, including literature accompanying the product involved); *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261, 1272 (Fed.Cir.1986) (upholding district court's determination that patentee demonstrated direct infringement, as part of inducement claim, using circumstantial evidence including extensive sales and instructions distributed with the product); *cf. E-Pass Techs., Inc. v. 3Com Corp.*, 473 F.3d 1213, 1222-23 (Fed.Cir.2007) (affirming summary judgment of no infringement under the approach of *Moleculon*, observing that product manuals in question, at best, only taught method steps in isolation).

Lucent introduced sufficient circumstantial evidence for the jury to conclude that Microsoft customers actually used the software to carry out the method steps of the '356 patent. Lucent provided evidence in the form of instruction and encouragement offered via tutorials, help files, web pages, manuals, promotional materials, the testimony of those familiar with these materials, and other sources. (*See, e.g.*, PX 742 (excerpts of Microsoft Money user's guides); PX

1139B (excerpt from Microsoft Outlook help files); PX 651 (user's guide for Microsoft Windows Mobile product).) A reasonable jury could have reviewed this extensive record and concluded, based on the circumstantial evidence, that there was direct infringement.

The cases cited by Microsoft do not require a different result. In *ACCO Brands, Inc. v. ABA Locks Mfrs. Co.*, 501 F.3d 1307, 1313 (Fed.Cir.2007), the court stated, in the context of an inducement claim, that "[i]n order to prove direct infringement, a patentee must either point to specific instances of direct infringement or show that the accused device necessarily infringes the patent in suit." Unlike the present case and others cited above, however, the court in *ACCO Brands, Inc.* concluded that there was no evidence in the record that the alleged infringer distributed materials encouraging the infringing method of operation. *See id.*

Microsoft also cites *E-Pass* for the proposition that the accused infringer must expressly instruct the user regarding every step together, in the required order. *E-Pass Techs., Inc. v. 3Com Corp.*, 473 F.3d at 1222. The relevant portion of *E-Pass* concerned the requirement that a the patentee must show that all steps were actually performed, in order. *See id.* at 1222. The court concluded that the product manual evidence in that case showed "at best, that the Palm defendants taught their customers each step of the claimed method in isolation. Nowhere do the manual excerpts teach all of the steps of the claimed method together, much less in the required order." *Id.* It also concluded that "the accused PDAs are general-purpose computing devices that can be used for a variety of purposes and in a variety of ways." *Id.* Here, the

accused products are executable software, with their particular capabilities, not general-purpose computing devices. Furthermore, the jury could have reasonably concluded that only minimal instruction was needed to encourage a user to cause the accused software to carry out all of the steps involved. Viewing the evidence favorably to Lucent, a user of the accused software only needs to open a form and enter information in an appropriate field to trigger all steps of claim 19.

d. Contributory Infringement

Liability for contributory infringement derives from 35 U.S.C. § 271(c), which states:

> Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

Microsoft argues that there can be no finding of contributory infringement since all three products in question are capable of substantial noninfringing uses. It further argues that the Court's instructions failed to focus analysis on "the thing sold," and that it should therefore receive a new trial. Microsoft also points to a statement in *Hodosh v. Block Drug Co., Inc.*, 833 F.2d 1575, 1578 (Fed.Cir.1987), that "the thing sold must not be a 'staple article or commodity of commerce suitable for substantial noninfringing

use.'" *Id.* (quoting with approval *P.J. Federico, Commentary on the New [1952] Patent Act, 35 U.S.C.A.* at 53 (1952)).

First, the Court notes that the jury verdict was not necessarily premised on contributory infringement. The special verdict only stated that the jury found liability by either inducement or contributory infringement. Nevertheless, even if contributory infringement was the basis for liability, the Court concludes that Microsoft's challenges to Lucent's contributory infringement theories do not support judgment as a matter of law or a new trial.

In *Hodosh*, the accused infringer argued that its toothpaste product, which admittedly resulted in infringement of a patented method when used by customers, should escape liability because it contained an ingredient that was a "staple article or commodity capable of substantial noninfringing use." *See id.* at 1576-77. When quoting the Federico commentary in this context, the Federal Circuit was explaining why the accused infringer could not avoid liability for its overall product by including a staple ingredient. *See id.* at 1578. The present situation is, in many respects, the opposite of that in *Hodosh*. Microsoft attempts to avoid liability for the "ingredient," here a tool included in its software, by arguing that the entire software product has other noninfringing uses. *Hodosh* prevented a proposed erosion of protection available under 35 U.S.C. § 271(c). *See id.* ("The drafters of the section explicitly recognized that without protection from contributory infringers, owners of method patents, like the owner here, would have no effective protection.") Extending it to these circumstances would have the opposite effect by allowing potential infringers to escape liability

merely by packaging an infringing component for sale with some other staple article. *See Philips Elecs. N. Am. Corp. v. Contec Corp.*, 411 F.Supp.2d 470, 476 (D.Del.2006) ("[I]t would indeed violate the 'logic of the patent laws' to allow a potential infringer to avoid liability for contributory infringement by simply adding a noninfringing function to a device that practices a patented method.").

Lucent introduced evidence sufficient for the jury to conclude that Microsoft's tools did not have substantial noninfringing uses immunizing it from liability for contributory infringement. Microsoft argued, for example, that a user could bypass its graphical tools by keyboard entry, as with the Outlook calendar tool, or by downloading relevant data directly, as with the Microsoft Money transaction form. The jury could have reasonably concluded that typical users rarely, if ever, bypass the graphical tools by using these methods.

Microsoft also argues that its software cannot be an infringing component for purposes of section 271(c), citing *Microsoft Corp. v. AT & T Corp.*, 550 U.S. 437,—, 127 S.Ct. 1746, 1755, 167 L.Ed.2d 737 (2007). The *Microsoft Corp.* opinion was not so broad. There, the Supreme Court held that software, in the abstract, could not be a component, for purposes of infringement of an apparatus patent under 35 U.S.C. § 271(f). Section 271(f) creates infringement liability in certain circumstances where a supplier in the United States sends a component abroad for purposes of combining it into an infringing product. *Id.* at 1752. The Supreme Court's opinion did not reach contributory infringement under section 271(c), and it expressly left open the question of whether software, even in the abstract, may be a component of

a method claim for section 271(f) purposes. *Id.* at 1756 n. 13 ("If an intangible method or process, for instance, qualifies as a 'patented invention' under § 271(f) (a question as to which we express no opinion), the combinable components of that invention might be intangible as well.") Furthermore, while the Supreme Court concluded that software "in the abstract" was not a component in the relevant context, it did not extend its holding to tangible copies of software. *See id.* at 1755 (distinguishing the abstract software code at issue from computer-readable copies, such as those "inserted into a CD-ROM drive or downloaded from the Internet"). The Court therefore declines to extend *Microsoft Corp.* in order to limit the application of section 271(c) here. The dispute over the '356 patent involves method claims and commercial sales of software copies, not apparatus claims and foreign distribution of software "in the abstract."

e. Inducement

Microsoft seeks judgment as a matter of law, arguing that there is insufficient evidence of intent to support a finding of indirect infringement by inducement. It also seeks a new trial based on a purported error in the Court's instructions, which required that the accused infringer have "an intent to cause the encouraged acts." (Jury Instruction 21, Doc. No. 738.) Microsoft asserts that Lucent must further prove that it had the specific intent to cause infringement, not merely acts constituting infringement. The Court's instructions, however, also required the jury to find that the accused infringer "is aware of the patent, and knows or should have known that encouraged acts constitute infringement of the patent." (*Id.*)

First, as with contributory infringement, the Court notes that the jury's verdict was not necessarily premised on inducement. The jury may have based its verdict on contributory infringement alone, inducement alone, or both. Nevertheless, even if inducement was the basis for liability, the Court concludes that these arguments do not support judgment as a matter of law or a new trial.

In *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1306 (Fed.Cir.2006) (en banc in relevant part), the court stated that "the inducer must have an affirmative intent to cause direct infringement." "[I]nducement requires evidence of culpable conduct, directed to encouraging another's infringement, not merely that the inducer had knowledge of the direct infringer's activities." *Id.* In keeping with this directive, the Court required the jury to find more than mere intent to cause the acts constituting direct infringement. The Court also required the jury to find that the accused infringer "is aware of the patent, and knows or should have known that encouraged acts constitute infringement of the patent." (Jury Instruction 21, Doc. No. 738.) *DSU Medical Corp.* approved of the following formulation of the required state of mind:

> It must be established that the defendant possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement. The plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements.

DSU Medical Corp., 471 F.3d at 1306 (quoting *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed.Cir.1990), and observing that Supreme Court precedent had validated this approach). The Court's instructions followed that approach.

The Court concludes that Lucent introduced substantial evidence to support a jury verdict of inducement. The extensive record in this case, including the various manuals, help files, web pages, and other sources, is adequate for a jury to conclude that Microsoft intended customers to use the tools in an infringing manner. Lucent also introduced substantial evidence that Microsoft was aware of the '356 patent as early as April, 2002. (*See, e.g.*, PX 367 (e-mail from Dell notifying Microsoft, for indemnification purposes, of Lucent's assertion of the '356 patent).)

2. The Jury's Finding of No Infringement by Dell

Lucent moves for judgment as a matter of law that Dell infringed the '356 patent, or for a new trial. As with its allegations against Microsoft, Lucent asserted claims 19 and 21 against Dell based on theories of inducement and contributory infringement.

Dell argues, and the Court agrees, that there is substantial evidence to support a finding that Dell lacked the culpable mental state required for indirect infringement. *See, e.g.*, *DSU Medical Corp.*, 471 F.3d at 1306 (discussing required state of mind). As with Microsoft, Lucent introduced evidence of alleged intent in the form of tutorials, help files, web pages, manuals, promotional materials, the testimony of those familiar with these materials, and other sources. Not all of the documents and evidence necessarily implicated Dell, however, and the jury could reasonably

disregard Microsoft documents as they relate to Dell's mental state. Dell is a reseller of the accused Microsoft software, while Microsoft is the designer and programmer. For judgment as a matter of law, the Court must "disregard all evidence favorable to the moving party that they jury is not required to believe." *Wallace*, 479 F.3d at 624. Furthermore, the Court concludes that the clear weight of the evidence is not against the jury's verdict. Though the parties' post-trial briefing focused on the Microsoft products, the Court also reaches an equivalent conclusion for Quicken, asserted only against Dell.

Much like Microsoft, Dell also argued that there was no proof of direct infringement by Dell's customers, similarly citing *ACCO Brands, Inc.* and *E-Pass Techs., Inc.* Dell resells Microsoft's software to consumers, often packaged with a computer system. As the Court noted with Microsoft's motion, the circumstantial evidence was sufficient for a jury to conclude that there were acts of direct infringement by users of the software. Since many of the end users in question overlap between Dell and Microsoft, the Court does not rely on this part of Dell's argument in upholding the jury's verdict on the Microsoft products. Similarly, the Court does not rely on Dell's argument that substantial non-infringing uses precluded a finding of infringement for the Microsoft products.[6] The Court rejects this argument for the same reasons discussed above in regards to the infringement finding against Microsoft.

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[6] These arguments may have more force as to Quicken, but the Court does not reach these questions, having concluded that the jury could have reasonably determined that Dell lacked the necessary culpable mental state as to Quicken.

3. Consistency of the Verdicts for Microsoft and Dell

Microsoft moves for a new trial on the ground that the jury verdict is facially inconsistent. Whether to grant a new trial is a matter within the Court's discretion, and it is only required for an inconsistent verdict when "it is impossible under a fair reading to harmonize the [jury's] answers." *See Magnussen v. YAK, Inc.*, 73 F.3d 245, 246 (9th Cir.1996) (quoting *Omar v. Sea-Land Serv., Inc.*, 813 F.2d 986, 991 (9th Cir.1987)). First, the special verdict is not facially inconsistent. Nothing in the special verdict form or the jury instructions required the jury to reach the same conclusion as to Microsoft and Dell on this issue. Furthermore, it is possible to harmonize the jury's answers for Microsoft and Dell. The Court has reviewed the record and concludes that the jury could have reached different conclusions as to whether Microsoft and Dell had the required culpable mental state.

4. Claim Construction

Microsoft challenges the Court's construction of "concurrently displaying" as "displaying at the same time, as by a window overlaying the form." It argues that the definition of concurrently should also include "automatically." The Court declined to include this limitation, both following its original *Markman* hearings and after subsequent briefing. (*See* Claim Construction Order Clarifying and Superceding Order of March 1, 2004, Case No. 02-CV-2060, Doc. No. 1552.) The Court continues to conclude that, in this context, "concurrently displaying" does not require "automatically displaying." The preferred embodiments described in the patent do not always require that a predefined tool be automatically displayed. (*See, e.g.*,

'356 Fig. 15, 13:46-53 (indicating that, under certain settings, the sample application may await user input before displaying a specific tool).)

C. Damages

1. Damages Verdict by Lump-Sum Royalty

A patent holder is entitled to "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer . . . ." 35 U.S.C. § 284. The trial court has discretion to determine the method of calculating damages. *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1108 (Fed.Cir.1996). One common method for calculating damages, applied by the experts for both sides in this case, is a hypothetical negotiation. Under this approach, a reasonable royalty is the amount that the patentee and accused infringer would have agreed upon in a hypothetical negotiation at the time of the first infringement, on the assumption that the patent is valid and would be infringed. *See Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1554-55 (Fed.Cir.1995) (en banc); *Maxwell*, 86 F.3d at 1108-1110;*Wang Labs., Inc. v. Toshiba Corp.*, 993 F.2d 858, 869-70 (Fed.Cir.1993). "[W]hat an infringer would prefer to pay is not the test for damages." *Rite-Hite Corp.*, 56 F.3d at 1555. The Court also instructed the jury that it may consider factors including, but not limited to, commonly applied *Georgia-Pacific* factors. *See Geogia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F.Supp. 1116, 1120 (S.D.N.Y.1970).

Lucent's expert advocated an 8% royalty on actual sales of the software products. Using this amount, Lucent asked the jury to award $561.9 million based on Microsoft's total sales of the accused products

during the applicable time period.[7] Microsoft's expert countered that damages, if any, should be limited to a lump-sum royalty of $6.5 million for all three products. He argued that a lump-sum payment covering the entire period in question would be appropriate for several reasons, including the uncertainty and cost involved in monitoring and enforcing running royalty payments based on actual sales. (*See, e.g.*, Trial Tr. XVI 180:22-185:8 (explaining benefits of lump-sum payment in context of the '295 patent), 206:6-20 (incorporating same reasons in discussion of the '356 patent).) The jury awarded a lump-sum royalty of approximately $358 million for infringement of the '356 patent. There is substantial evidence to support the jury's verdict.

Microsoft argues that the jury's verdict violates the entire market value rule, requiring judgment as a matter of law or a new trial. The entire market value rule considers whether a patentee may recover damages based on the value of an entire apparatus containing several features, not all covered by the patent. In this case, Lucent advocated a reasonable royalty at trial, and the experts disagreed as to the amount of the royalty. *See Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1549 (Fed.Cir.1995). The Federal Circuit has allowed recovery based on the value of an "entire apparatus containing several features when the patent-related feature is the 'basis for customer demand.'" *Id.* (quoting *State Indus., Inc.*

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[7] This period extends from January 13, 2003, when Microsoft received notice of the '356 patent, to December 11, 2006, when the patent expired. Lucent also sought $125 million in damages for Dell's sales during this period, and sought to hold both Microsoft and Dell liable for the latter amount. (*See, e.g.*, Trial Tr. XVIII 209:15-210:14 (excerpt from closing argument summarizing Lucent's damages theory for the '356 patent).)

v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1580 (Fed.Cir. 1989)). The patented and unpatented components "must function together . . . in some manner so as to produce a desired end product or result." *Id.* at 1550. The components "must be analogous to components of a single assembly or be parts of a complete machine, or they must constitute a functional unit." *Id.* The Federal Circuit has applied this rule where a patentee seeks to recover based on the entire value of a product used to practice a claimed method. *See Fonar Corp. v. Gen. Elec. Co.*, 107 F.3d 1543, 1552-53 (Fed.Cir.1997) (applying entire market value rule to damages sought based on value of MRI machines where claims involved method for improved use of the machines). The Court instructed the jury on the entire market value rule. (*See* Jury Instruction 46, Doc. No. 738.)

The jury did not adopt either side's approach outright. By examining the hypothetical scenario from the parties' standpoint at the time infringement began, the jury may have considered a wide variety of factors, not merely the actual product revenue. Therefore, the award does not reflect an entire market value calculation on its face. Furthermore, the Court concludes that substantial evidence supports the jury's verdict, whether or not the entire market value rule applies.

2. Substantial Evidence

The jury's verdict is supported by substantial evidence. Lucent introduced examples of actual lump-sum royalty licenses from the computer industry with payments ranging as high as $290 million. (*See, e.g.*, PX 5142, 5150, 5151, 5152.) Lucent also introduced sample license agreements to support its expert's theory that a reasonably royalty would be 8% of the

retail selling price. (*See, e.g.*, PX 5140, 5141, 5172.) Lucent introduced evidence, including its experts' testimony, that the patented technology was an important part of Microsoft's products and that these products were highly profitable and commercially successful. Microsoft sold tens of millions of copies of the accused software during the relevant period. The jury could have reasonably accepted that, in a hypothetical negotiation, the success of these products would have been foreseeable.

The law allows a jury to settle on a royalty rate or lump-sum different than those offered by the parties' experts. *See, e.g., Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1378 (Fed.Cir.2005). Furthermore, by considering the hypothetical negotiation's assumption that the patent is valid and would be infringed, the jury could reach an amount higher than those in actual licenses. In a real-world negotiation, validity and infringement may carry uncertainty that limits the strength of the patentee's negotiating position. By assuming validity and infringement, the patentee's position may be stronger in the hypothetical negotiation. Having viewed the testimony and reviewed the trial record, the Court concludes that the jury's verdict is supported by the evidence, is not excessive, and does not reflect mere speculation.

The Court also notes that, even if the entire market value rule applied, there was substantial evidence for the jury to rely on the whole value of the software. Lucent introduced substantial evidence, such as marketing material, product documentation, and expert testimony, that the accused features were important to the success of Microsoft's products and were promoted by Microsoft. (*See, e.g.*, PX 651, 742

1139B.) The jury could have reasonably accepted this evidence and concluded that, without the user interface benefits provided by the patented method, the products would have suffered commercially by not meeting consumer expectations. *See Tec Air, Inc. v. Denso Mfg. Michigan Inc.*, 192 F.3d 1353, 1362 (Fed. Cir.1999) (upholding award based on the entire value of radiator and condenser assemblies, where patents involved the manufacture of properly balanced fans without which the assemblies would not have met customer requirements). Additionally, viewing the record as a whole and considering the credibility of the witnesses, the Court concludes that the damages award is not against the clear weight of the evidence.

3. Other Considerations

Microsoft argues in the alternative that, if the jury did not use an entire market value calculation, its verdict must be rejected as purely speculative. The Court disagrees. Substantial evidence supports the verdict. Indeed, Lucent's experts testified to an award of more than $500 million based on actual licenses and industry practice. Microsoft's own expert testified that Microsoft would negotiate a one-time lump sum payment for the life of the patent, rather than a running royalty. (*See, e.g.*, Trial Tr. XVI 180:22-185:8, 206:6-20.) Furthermore, nothing on the face of the verdict indicates mere speculation. If the precision of the jury's "down-to-the-penny" calculation shows anything, it is that the jury used some form of numerical derivation from values in the evidence. This is not a case where the jury's award should be reduced because it was based on an expert's speculative testimony. *Cf. Go Medical Indus. Pty., Ltd. v. Inmed Corp.*, 471 F.3d 1264, 1274 (Fed.Cir. 2006) (affirming reduction in jury's award of trademark

royalty based on expert's testimony that offered no rationale for selecting the particular values used); *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1361-64 (Fed.Cir.2001) (vacating jury's award of future lost profits for patent infringement where it was based on an expert opinion that used speculative assumptions). Lucent's expert supported his theories with evidence including license agreements from contexts that the jury could accept as comparable to the present situation.

Microsoft also argues that the damages award is unwarranted due to a lack of evidence that the claimed method was actually used. The Court concludes that there was adequate circumstantial evidence to support a finding of direct infringement. Similarly, the jury could have reasonably concluded that the acts of direct infringement were sufficiently prevalent to support its award. As a whole, the evidence is sufficient to support the damages awarded by the jury.

D. Summary for Day '356

As to the '356 patent, the Court DENIES all motions for judgment as a matter of law and all motions for a new trial or remittitur.

III. Haskell '226

A. Validity

1. Obviousness

MPT moves for judgment as a matter of law that claim 12 of the '226 patent is not invalid for obviousness. The Court agrees that the evidence is insufficient to support the jury's finding of obviousness by clear and convincing evidence. *See Takeda Chem. Indus., Ltd.*, 492 F.3d at 1355 (burden for

obviousness). "The ultimate judgment of obviousness is a legal determination." *KSR Int'l Co.*, 127 S.Ct. at 1745. Courts give deference, however, to the jury's underlying findings of fact. *See Finisar Corp.*, 523 F.3d at 1338. These underlying findings include "the scope and content of the prior art, the differences between the prior art and the claims at issue, the level of ordinary skill in the pertinent art . . . ." *Id.* at 1338-39.[8]

a. The Micke Thesis and Related References

Microsoft offered two theories of obviousness. The first focused on a document known as the Micke Thesis in combination with other references. Thomas Micke wrote his 1986 "Comparison of a Predictive and an Interpolative Motion Compensating Coding Method for Television Video Signals" as a master's thesis for the University of Hanover's Institute for Theoretical Communications Engineering and Information Technology ("TNT"). (*See* DX CAN (translated); DX IKH (original German).) The Micke Thesis describes an investigation into the benefits of combining "the DPCM method with motion compensating prediction" with "motion compensating interpolation of the video signal" into a single method called

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[8] MPT's motion did not seek to overcome the finding of obviousness with secondary considerations of nonobviousness. There is no significant dispute as to the level of ordinary skill in the art. Microsoft's expert testified that a person of ordinary skill would have either: (1) a Bachelor of Science degree in electrical engineering or computer engineering and two years of experience in video compression; or (2) a Master's degree in electrical engineering, computer engineering, or a similar field, including study of video compression technology. (Trial Tr. XVI 60:13-25.) MPT's expert has offered a similar definition. *See Lucent Techs. v. Gateway, Inc.*, 537 F.Supp.2d 1095, 1101 (S.D. Cal.2008).

"motion compensating interpolation error coding." (*Id.* at GW-LT 255055.) Micke's research simulated this approach and concluded that the tests "yielded rather good results but still need confirmation by additional investigations and subjective tests." (*Id.* at GW-LT 255083.) Microsoft argued that the Micke thesis therefore encouraged what Microsoft characterized as the central innovation of the '226 patent, namely the transmission of interpolation error to aid in the overall video coding process.

Microsoft asserted the Micke Thesis in combination with either the "Musmann" or "Jain & Jain" references, or both. Since the Micke Thesis did not involve the use of a discrete cosine transform ("DCT") to encode error information, as in the patent, Microsoft offered these references as prior art allegedly making it obvious to use a DCT in combination with the teachings of the Micke Thesis. The Musmann article, entitled "Advances in Picture Coding," was published in the April 1985 proceedings of the IEEE. (DX CSN.) The article discusses the relative benefits of using a DCT for transform coding, including use for "natural pictures." (*See, e.g., id.* at MSLT_0004925.) Jain & Jain published "Displacement Measurement and Its Application in Interframe Image Coding" in the December 1981 IEEE Transactions on Communications. (DX CRO.) It discloses the use of DCT coding in the context of "motion compensated interframe hybrid coding." (*See, e.g., id.* at MSLT_0004887.) Micke observed that further improvement "is possible by . . . transformation coding of the motion compensated errors," and he cited to the Musmann and Jain & Jain references. (DX CAN at GW-LT 255072, 255084.) Dr. Delp offered his opinion that the Micke thesis, in combination with either or both of these references,

rendered the '226 patent obvious. (*See, e.g.*, XVI 63: 6-80:5.)

The Court concludes that Microsoft's evidence of obviousness regarding the Micke Thesis and related references is insufficient, as a matter of law, to support the jury's conclusion that claim 12 is invalid for obviousness. In particular, Microsoft did not provide evidence, sufficient to meet a clear and convincing standard, that the structures corresponding to the means-plus-function elements in claim 12 would have been obvious in light of these references. A conclusory expert opinion, without factual support, will not support a finding of obviousness by clear and convincing evidence. *See Upjohn Co. v. Mova Pharm. Corp.*, 225 F.3d 1306, 1311 (Fed.Cir.2000); *cf. Symbol Techs., Inc. v. Opticon, Inc.*, 935 F.2d 1569, 1574-76 (Fed.Cir.1991) (concluding that jury could rely on expert's ultimate opinion of infringement without detailed explanation, where burden is a preponderance of the evidence). Dr. Delp testified that certain code in Micke's Thesis corresponded to the means-plus-function elements of claim 12. (*See, e.g.*, Trial Tr. XVI 76:5-77:4 (correlating first means-plus-function element to portions of the Micke Thesis); 77:5-12 (similar, second means-plus-function element).) Dr. Delp showed at most, however, that the code performed a similar or identical function, without explaining why the particular structures disclosed in the '226 patent would have been obvious to one of ordinary skill based on these references. For example, regarding the second means-plus-function, Dr. Delp stated:

Q: . . . What does the next slide blowup show you, which is IKH at 5255 through 56?

A: This is some more code from the thesis, Micke thesis. This is Element 2 of the 226 patent. So he's talking about doing the interpolation field forward and backward, and he talks about quantizing the prediction error. Now, in this case he's talking about the interpolation error.

(Trial Tr. XVI 77:5-12.) At best, this testimony and the related evidence only provides clear and convincing evidence that a person of ordinary skill would have been motivated to pursue an invention implementing the same function, but not necessarily using the particular structure disclosed.

Furthermore, while the references show that it may have been obvious to use certain individual structural components in video coding, such as the DCT transform, the structure of a means-plus-function element is viewed as a whole, not just a collection of discrete pieces. *See, e.g., Odetics Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1268 (Fed.Cir.1999). In addition, an obviousness inquiry considers the claim "as a whole," not whether each individual element was known. 35 U.S.C. § 103(a). Microsoft did not offer clear and convincing evidence that it would have been obvious to implement claim 12's means-plus-function elements in combination using the overall structures disclosed by the patent. Microsoft's efforts to rehabilitate the evidentiary offering with attorney argument are unavailing.

The Court also notes that there were factual disputes over whether the Micke Thesis even constitutes prior art since it was only available, if at

all, from the TNT library, and the accessibility of the thesis during the relevant time period was disputed.[9] These uncertainties may present a further obstacle in finding claim 12 obvious by clear and convincing evidence, but the Court need not reach this issue.

b. The H.261 References

Microsoft's second obviousness theory also fails to present clear and convincing evidence of obviousness, taking the claim as whole. Microsoft argues that claim 12 is obvious in light of two documents from a March, 1986 meeting in Tokyo regarding H.261, a video compression standard used in video conferencing. (*See* Trial Tr. XVI 46:19-50:11.) They are known as Document 81 and Document 103R. Document 81, entitled "Comments on Conditional Motion Compensated Frame Interpolation," includes a diagram of a coder for conditional motion compensated interpolation. (*See* DX BJL at MSLT0625893 Fig. 1.) The diagram shows the coder taking the difference of the received picture and a motion interpolative prediction, then sending that output through a coding unit. (*Id.*) Document 103R, entitled "Report of the Fifth Meeting in Tokyo (March 25-28, 1986)," contains a block diagram of a reference model video coder. (*See* DX BXY at MSLT0626039 Fig. 3.)

Microsoft argues that Figure 3 of Document 103R discloses the first element of claim 12. At least to this extent, the evidence supports Microsoft's position. Indeed, Document 103R shows a model motion compensated coder, and the patent itself relates the

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[9] The Court discussed the nature of this dispute at the summary judgment stage, and though the trial record is more extensive, the essential character of the dispute remained the same. *See Lucent Techs.*, 537 F.Supp.2d at 1101.

first means-plus-function element to "conventional motion compensation coding." (*See* '226 4:26-34; 4:63-5:6.)[10] Dr. Delp also offered his expert opinion, explaining how the elements of Figure 3 in Document 103R corresponded to the first means-plus-function element and were known before the '226 patent. (*See, e.g.*, Trial Tr. XVI 57:17-58:13.)

The crux of the matter lies with Document 81 and the second means-plus-function element of claim 12. Microsoft did not make a sufficient showing for a jury to find that claim 12, as a whole, is obvious by clear and convincing evidence, particularly with regard to the second means-plus-function element, either alone or in combination with the more "conventional" coding of the first element. Though Document 81 discloses sending some form of data representing the difference between a motion interpolative prediction and an input signal, it does not indicate on its face that this process should involve blockwise coding or a DCT, as in claim 12.[11] Additionally, Dr. Delp testified that a person of ordinary skill would have read Document 81 in context as involving the use of a DCT, though he agreed that there is no reference to blockwise coding on the face of the document. (*See, e.g.*, Trial Tr. XVI 59:25-60:4, 110:25-111:24.) Nevertheless, even if Document 81 disclosed the second

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[10] This comment about "conventional" coding appears in the patent's description of its encoder, and the description of relevant structure in the decoder incorporates the relevant description of the encoder by reference. (*See* '226 5:2-6.)

[11] Microsoft argues that the second means-plus-function element does not require blockwise operation, but this is contrary to the plain language of the claim. The second element involves developing "interpolated blocks" from "block approximations" and "codes that describe deviations from interpolated blocks."

means-plus-function element in its entirety, which the Court questions, there is insufficient evidence that it would have been obvious to combine its teachings with those of Document 103R to produce the invention of claim 12.

In reaching this conclusion, the Court recognizes that a "teaching, suggestion, or motivation" from the prior art is no longer strictly required to establish obviousness. *See KSR Int'l Co.*, 127 S.Ct. at 1739-41. Nevertheless, that requirement provided "helpful insight" that the Court may still consider in a flexible, common sense manner. *Id.* at 1741. Microsoft presented insufficient evidence that it would have been obvious to combine these references. Though Document 103R cites to Document 81, it does so as one among many documents in the context of an industry organization exploring many possible options for a video coding standard. (*See, e.g.*, DX BXY at MSLT0626010, 6018-19.) Furthermore, the Document 103R report described the motion-compensated interpolation of Document 81 merely as one option in the overall context of a complex, multifaceted standardization effort. (*Id.* at MSLT0626019.) Viewed in context, these documents do not rise to the level of clear and convincing evidence of obviousness.

2. Indefiniteness

Microsoft moves for judgment as a matter of law that claim 12 of the '226 patent is invalid for indefiniteness under 35 U.S.C. § 112 ¶ 2.[12] Indefiniteness is a legal conclusion that may arise in the course of the Court's duty to construe the patent

[12] Dell did not join in this aspect of Microsoft's motion. This legal question was not an issue at trial, and the Court understands that Microsoft wishes to preserve it for appeal.

claims. *See Howmedica Osteonics Corp. v. Tranquil Prospects, Ltd.*, 401 F.3d 1367, 1371 (Fed.Cir.2005). To be sufficiently definite, a claim must be amenable to construction, "even though the task may be formidable and the conclusion may be one over which reasonable persons will disagree." *See Exxon Research and Eng'g Co. v. United States*, 265 F.3d 1371, 1375 (Fed.Cir.2001). Courts "accord respect to the statutory presumption of validity" by finding claims "indefinite only if reasonable efforts at claim construction prove futile." *Id.*

Microsoft argues that claim 12's use of the term "interpolated blocks" is nonsensical and inconsistent. The Court construed claim 12 well in advance of trial, having provided the parties ample opportunity to brief and argue their positions on claim construction. In doing so, the Court concluded that the claim was amenable to construction. *Id.* Therefore, the Court declines to reconsider its claim construction or to grant judgment as a matter of law that claim 12 of the '226 patent is indefinite.

B. Infringement

MPT moves for judgment as a matter of law that Microsoft infringed claim 12 of the '226 patent, or for a new trial on this issue. Literal infringement of a means-plus-function claim "requires that the relevant structure in the accused device perform the identical function recited in the claim and be identical or equivalent to the corresponding structure in the specification." *Odetics, Inc.*, 185 F.3d 1259, 1267 (Fed. Cir.1999). "[T]he claim limitation is the overall structure corresponding to the claimed function." *Id.* at 1268. An accused structure is equivalent if it "performs the claimed function in substantially the same way to achieve substantially the same result."

Id. at 1267. "The proper test is whether the differences between the structure in the accused device and any disclosed in the specification are insubstantial." *Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus., Inc.*, 145 F.3d 1303, 1309 (Fed.Cir.1998). To literally infringe a means-plus-function claim, a structural equivalent must have been available at the time the claim issued. *Al-Site Corp. v. VSI Int'l, Inc.*, 174 F.3d 1308, 1320 (Fed.Cir.1999). After-arising technology may only infringe a means-plus-function claim under the doctrine of equivalents. *Id.* at 1320-21 & n. 2.

1. MPEG-1 and MPEG-2 Products

There is substantial evidence to support the jury's verdict under Microsoft's theory that there is no infringement because its accused MPEG-1 and MPEG-2 decoders use a "measured motion" rather than a "guessed motion" technique. Microsoft contends that, as a result, the MPEG-1 and MPEG-2 decoders do not contain structure equivalent to the structure of the second means-plus-function element of claim 12, which states:

> means responsive to said block approximations and to said codes that describe deviations from interpolated blocks to develop said interpolated blocks.

The Court identified the corresponding structure as:

> Decoder 25, DCT $^{-1}$ 34, Adder 35 and Shift Circuits 31 and 39, including all inputs and outputs of these elements related to the claimed function (*See* Fig. 2; Col. 4, lines 63-65; Col. 5 lines 7-23 [description of the structure and inputs that

correspond to these elements is at Col. 4, lines 38, 50]).[13]

The adder and shift circuits produce an interpolated estimate of a video frame using motion vectors representing motion between the frames preceding and succeeding the interpolated frame. (*See* '226 4: 38-50, 5:7-10.) As described in the patent, these circuits produce the interpolated frame by taking the average of: (1) the preceding frame, shifted by half of the motion vectors; and (2) the succeeding frame, shifted by half of the same motion vectors, but in the opposite direction. (*Id.*) This is the so-called "guessed motion" approach.

For the MPEG-1 and MPEG-2 decoders, Microsoft introduced substantial evidence that the encoder measures and transmits two separate sets of motion vectors representing differences between the frame to be reconstructed by interpolation and the frames immediately preceding and succeeding it. The MPEG-1 and MPEG-2 decoders create an interpolated frame from estimates made using both sets of vectors, not from a single set of vectors that are, for example, divided in two to estimate motion. (*See, e.g.*, Trial Tr. XVI 30:16-31:11, 36:8-37:2, 37:25-38:19, 40:6-22 (excerpts of Dr. Delp's testimony regarding these differences).) This is the so-called "measured motion" approach. MPT's expert, Dr. Girod, agreed that MPEG-1 and MPEG-2 do not send and use a single set of motion vectors in the same manner described in the patent. (*See* Trial Tr. XVII 39:13-21.)

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[13] The bracketed text is part of the original claim construction and identifies the corresponding structure of the claimed encoder. At times, the patent describes the decoder of claim 12 with reference to the corresponding encoder elements. (*See, e.g.*, '226 5:7-10.)

MPT argues that the disclosed structure is not necessarily restricted to one that implements the "guessed motion" method, and that Shift Circuits 31 and 39 could be circuits that receive and process two sets of motion vectors in the same manner as in MPEG-1 and MPEG-2. Figure 2 of the patent plainly indicates, however, that the inputs to Shift Circuits 26, 31, and 39 are the same. Shift Circuit 26 reproduces the succeeding frame from the motion vectors representing differences from the preceding frame. (*See* '226 4:26-32, 4:67-5:6.) Based on the evidence, the jury could have reasonably concluded that a structure designed to process two sets of measured motion vectors was not identical to that disclosed in the patent.

Furthermore, Microsoft introduced substantial evidence from which the jury could conclude that the MPEG-1 and MPEG-2 decoders did not contain a structure equivalent to that disclosed in the patent. To be equivalent, the accused structure must perform "the claimed function in substantially the same way to achieve substantially the same result." *Odetics, Inc.*, 185 F.3d at 1268. The jury could have reasonably found that either or both of these requirements were not met. While the Court was persuaded by the reasoning of MPT's expert Dr. Girod,[14] the jury could have reasonably accepted the opinion of Microsoft's expert, based on his knowledge of the video coding standards and analysis of the source code involved, that the variance in motion compensation methods indicates that the accused products do not perform the claimed function in substantially the same way. (*See, e.g.*, Trial Tr. XVI 36:8-37:2, 37:25-38:19, 40:

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[14] The Court was not persuaded to an extent sufficient to prompt a new trial, however.

6-22.) Furthermore, both Dr. Delp and one of the inventors, Dr. Haskell, testified that the "measured motion" method results in improvements over the approach in the '226 patent, and the jury could reasonably conclude that the MPEG-1 and MPEG-2 decoders do not achieve substantially the same result. (*See, e.g.*, Trial Tr. XVI 30:5-33:4 (Dr. Delp), 122:6-20 (Dr. Haskell); *see also* Trial Tr. III 42:11-15 (MPT's expert, Dr. Girod, discussing general benefits of motion vectors).)

2. VC-1 Products

Microsoft also made the "measured" versus "guessed" motion argument for the products using VC-1 decoders. Though the underlying analysis is similar in some respects, there are unique considerations to VC-1. In particular, the VC-1 standard describes a "direct mode" of operation in which an interpolated frame is created by halving the motion vectors between the preceding and succeeding frames. (*See, e.g.*, PX 3556 Fig. 71.) Microsoft counters by arguing that VC-1 only uses the direct mode after measuring the motions vectors for the interpolated frame, and that VC-1 source code never actually uses vectors between the preceding to the succeeding frame to guess at a location in the interpolated frame. (*See, e.g.*, Trial Tr. XVI 40:6-11, 102:2-104:17 (testimony from Dr. Delp on these issues).) The jury could have reasonably accepted Dr. Delp's analysis and concluded that there were substantial differences between the claim and the VC-1 decoders. The Court concludes that MPT is not entitled to judgment as a matter of law or a new trial.

Furthermore, Microsoft introduced substantial evidence for the jury to conclude that the accused structures were not equivalent because Microsoft's

VC-1 products do not use the DCT, and its inverse, for encoding and decoding. There is no dispute that the VC-1 integer transforms are not identical to the DCT. Microsoft introduced substantial evidence sufficient for the jury to conclude that replacing the DCT with VC-1 integer transforms would result in structures that, as a whole, were not equivalent to those in the claim elements. For example, Microsoft introduced a memo describing the VC-1 integer transforms which observed that interchanging the two would result in a "severe mismatch" and that "the decoded sequence will quickly degenerate" (DX IIC at MSLT_1027528.) VC-1 replaced the 32-bit inverse DCT processing from previous products with 16-bit operations allowing for better processing efficiency. (*Id.*) Microsoft also introduced evidence that VC-1's approach also resulted in better subjective performance for video playback, which won an industry competition. (*See, e.g.*, PX 1804 at LUC 1263646-48, Trial Tr. XV 118:4-121:2.) Lucent counters that the Microsoft documentation indicates a high level of correlation with DCT, at times greater than 99%. (*See, e.g.*, DX IIC at MSLT_1027530.) Given the other evidence that VC-1 achieved this high correlation with better efficiency and better subjective results, however, the jury could reasonably conclude that the differences were substantial. Furthermore, the jury could reasonably conclude that this substitution rendered the overall structure of the VC-1 decoders substantially different from those in the claim elements.

Since the issues discussed here provide ample reason to deny MPT's motions with respect to infringement of the '226 patent, the Court declines to reach

Microsoft's other arguments for upholding the finding.[15]

C. Equitable Defenses

The jury returned advisory verdicts on two equitable defenses for the '226 patent. The jury found no inequitable conduct, and it found that the laches defense applied to Lucent's assertion of the '226 patent. The ultimate determination of these issues rests with the Court, and it is not required to accept the jury's recommendations. *See, e.g., Huser v. Santa Fe Pomeroy, Inc.*, 513 F.2d 1298, 1299 (9th Cir.1975); *cf. Los Angeles Police Protective League v. Gates*, 995 F.2d 1469, 1473 (9th Cir.1993).

1. Inequitable Conduct

Patent applicants "are required to prosecute patent applications with 'candor, good faith, and honesty.'" *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, 326 F.3d 1226, 1233 (Fed.Cir.2003) (quoting *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1178 (Fed. Cir.1995)). "A patent applicant commits inequitable conduct when, during prosecution of the application, he makes an affirmative representation of a material fact, fails to disclose material information, or submits false material information, and does so with the intent to deceive." *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 314 F.3d 1313, 1358 (Fed.Cir.2003). The defendant may prove inequitable conducting by showing both a failure to disclose information material

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[15] Microsoft also argued, for example, that: (1) MPT failed to provide any evidence that certain VC-1 decoders include the claimed structures; (2) MPT failed to provide sufficient evidence of indirect infringement; and (3) downloads of Windows Media Player cannot infringe in light of *Microsoft Corp. v. AT & T Corp.*, 550 U.S. 437, 127 S.Ct. 1746, 167 L.Ed.2d 737 (2007).

to patentability and an intent to deceive. *M. Eagles Tool Warehouse, Inc. v. Fisher Tooling Co., Inc.*, 439 F.3d 1335, 1340 (Fed.Cir.2006). Inequitable conduct requires proof by clear and convincing evidence. *Id.*, 439 F.3d at 1340 (burden applies to both elements); *Monsanto Co. v. Bayer Bioscience N.V.*, 363 F.3d 1235, 1239 (Fed.Cir.2004).

The test for materiality is "what a 'reasonable examiner would consider . . . important in deciding whether to allow the application to issue as a patent.'" *A.B. Dick Co. v. Burroughs Corp.*, 798 F.2d 1392, 1397 (Fed.Cir.1986). Under the rule in effect during the prosecution of the '226 patent, information is material where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent. 37 C.F.R. § 1.56 (1989).

Mere oversight or negligence is insufficient to meet the requisite intent to deceive. *See, e.g., Allen Eng'g Corp. v. Bartell Indus., Inc.*, 299 F.3d 1336, 1351 (Fed.Cir.2002); *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 876 (Fed.Cir.1988) (en banc in relevant part) (concluding that even gross negligence does not justify inference of intent to deceive). The defendant may prove intent using circumstantial evidence. *See, e.g., Merck & Co., Inc. v. Danbury Pharmacal, Inc.*, 873 F.2d 1418, 1422 (Fed. Cir.1989). In determining whether circumstantial evidence supports a finding of intent, "it is proper to consider the degree of materiality of the information." *Lipman v. Dickinson*, 174 F.3d 1363, 1370 (Fed.Cir. 1999). The degree of intent the defendant must prove is based a sliding scale related to the materiality of

the information. *Abbott Labs. v. TorPharm, Inc.*, 300 F.3d 1367, 1380 (Fed.Cir.2002).

Microsoft argues that the applicants for the '226 patent committed inequitable conduct by failing to disclose the Micke Thesis and the H.261 documents. These references did not render the '226 patent invalid for obviousness, and the jury returned a finding that claim 12 was not invalid for anticipation. The materiality of the documents, if any, is limited accordingly, and Microsoft's burden of showing intent is correspondingly increased. Even assuming some degree of materiality, Microsoft did not offer clear and convincing evidence of an intent to deceive.

a. H.261 Documents

Dr. Haskell, one of the named inventors, attended the March, 1986, meeting in Tokyo where the H.261 documents, and any related demonstrations, were presented. (*See* Trial Tr. XVI 146:22-148:11; DX BJL; DX BXY at MSLT0626024.) Dr. Haskell testified that the H.261 meetings included breakout sessions only for interested parties. (Trial Tr. XVI 130:8-131:3.) Though Dr. Haskell conceded that the documents indicated that he attended, Dr. Haskell never recalled attending the meetings or viewing Document 81 or any related demonstration. MPT did not offer any other direct evidence that Dr. Haskell was aware of the H.261 documents. One other attendee, Dr. Steffan Ericsson, recalled a discussion of "conditional motion-compensated interpolation where interpolation error is transmitted," and credited the idea with some importance. (*See, e.g.*, Trial Tr. XV 170:22-172:18.) The patent application was filed more than three years after the Tokyo meeting. These circumstances, and all the evidence reviewed by the Court, do not prove by clear and convincing evidence that Dr.

Haskell was specifically aware of Document 81 at any time, let alone at the time of the patent application.

b. Micke Thesis

Dr. Haskell may have been aware of the existence and general subject matter of the Micke Thesis as early as 1987, though there is not clear and convincing evidence that he ever read it and was familiar with its details. For example, Dr. Haskell was familiar with the work of the TNT institute, and even wrote a 1987 IEEE editorial that discussed a paper by Dr. Girod that referred to the Micke Thesis. (*See, e.g.*, DX ISU, Trial Tr. 126:7-22.) Having determined that the Micke Thesis does not render the patent obvious in combination with other references, the Court concludes that these circumstances would not provide clear and convincing evidence of intent to deceive. In summary, the Court adopts the jury's recommendation and concludes that Microsoft did not prove its defense of inequitable conduct by clear and convincing evidence.[16]

2. Laches

To establish laches, a defendant must prove by a preponderance of the evidence that: (1) "the plaintiff delayed filing suit for an unreasonable and inexcusable length of time from the time the plaintiff knew or reasonably should have known of its claim against the defendant," and (2) "the delay operated to the prejudice or injury of the defendant." *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1032

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[16] The Court also notes that the jury's recommendation of no equitable conduct followed its finding of obviousness, overturned by the Court here. Thus, the jury reached its recommendation despite viewing some of the references as more material to patentability than in the Court's view.

(Fed.Cir.1992) (en banc). If successful, the laches defense bars pre-suit damages. *Id.* at 1028.

Courts also consider and weigh any excuse offered for a delay, such as other litigation and negotiations with the accused. *Id.* at 1033. Where the plaintiff delays more than six years, a presumption of laches arises. *Id.* at 1034-36. This presumption shifts only the burden of production, not the ultimate burden of persuasion. *Id.* at 1037-39.

Material prejudice may be economic or evidentiary. *Id.* at 1033. Evidentiary prejudice includes the "inability to present a full and fair defense on the merits" for reasons such as loss of records and fading memories. *Id.* Economic prejudice normally requires more than the damages attributable to a finding of infringement liability, though a patentee may not wait silently, watching damages escalate when the infringer could have easily switched to a noninfringing product. *Id.* Courts look for a change in the alleged infringer's economic position during the delay. *Id.*

Laches is an equitable judgment made by the trial court "in light of all the circumstances." *Id.* at 1036. The Court may decline to apply the laches defense, even where the defendant establishes the laches factors by proof or presumption. *Id.*

The evidence showed that for several years leading up to the start of the litigation underlying this case, beginning around 1998 through 2002 and 2003, Lucent engaged in efforts to sell a license for the '226 to computer manufacturers Gateway and Dell.[17] Even-

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[17] Lucent was the original plaintiff asserting the '226 patent in this case. Lucent only created MPT and transferred the patent to MPT after the start of this litigation.

tually, Lucent sued both companies for infringement, initiating the lawsuits underlying the present case. (*See, e.g.*, 02-CV-2060 (initially suit against Gateway, transferred from E.D. Va. case 02-CV-389), 03-CV-1108 (initial suit against Dell, transferred from D. Del. case 03-CV-205).)[18] Microsoft then joined as an intervener, seeking a declaratory judgment that it did not infringe. (*See, e.g.*, Intervener Microsoft's Answer and Counterclaims filed March 18, 2003, Case No. 02-CV-2060, Doc. No. 27.) Under the circumstances of this case, the Court concludes that any delay was reasonable or excusable since Lucent attempted to seek compensation for its patent through the computer manufacturers, not Microsoft, and Microsoft entered the dispute voluntarily.

Microsoft argues that the six year presumption should apply because it announced its plans to implement MPEG-1 as early as 1995, more than six years before the start of this litigation. At best, however, this merely shifted the burden of production, and Dell came forward with specific evidence to explain any delay. The burden of persuasion remains with Microsoft on this issue. *A.C. Aukerman Co.*, 960 F.2d at 1037-39.

In summary, the Court does not adopt the jury's recommendation. Microsoft did not prove the laches factors by a preponderance of the evidence, and even if it had, the Court would exercise its discretion and decline to apply laches in light of all the circumstances of this case.

D. Summary

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[18] These cases were eventually consolidated, and a portion of the litigation was severed to create the present case. (*See* Doc. No. 1.)

The Court GRANTS Lucent's motion for judgment as a matter of law that the '226 patent is not invalid for obviousness.[19] The Court DENIES all other motions for judgment as a matter of law or new trial regarding the '226 patent. As to the '226 patent, the Court follows the jury's advisory verdicts in part. The Court finds no laches and no inequitable conduct as to the '226 patent.

IV. Agulnick '295

A. Infringement

1. Whether the Product Compares a Tap to a Predefined Shape

The fourth means-plus-function element of claim 1 requires a "means coupled to said computer for recognizing a plurality of said gestures, said recognizing means including means for comparing each said gesture to at least one predefined shape." The parties dispute whether Windows XP Tablet PC ("Tablet PC") devices recognize a tap gesture by comparing it to a predefined shape. Lucent introduced evidence that, in order to identify a tap, the Tablet PC software examines a series of points representing the stylus location and determines whether they fall within a small bounded area, and whether they are below a certain length. A gesture is considered a "tap" when it falls within both criteria. (*See, e.g.*, Trial Tr. VI 260:1-19.) Defendants' expert offered a similar explanation. (*See, e.g.*, Trial Tr. XIII 244:

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[19] Having granted a renewed motion for JMOL, Rule 50(c)(1) requires the Court to conditionally rule on any motion for new trial in the event the judgment is later vacated or reversed. Fed.R.Civ.P. 50(c)(1). Exercising its discretion in light of all the circumstances of this litigation, the Court conditionally denies any motion for new trial on this issue, subject to any future instruction from the appellate court. *See* Fed.R.Civ.P. 50(c)(2).

3-12.) Lucent also introduced the source code analyzed by its expert to reach this conclusion, and Microsoft documents list a tap among various "gestures" recognized by the Tablet PC software. (*See* PX 964, 965, 5544, 6326.)

Defendants argue that this bounding box method merely examines the size of stylus movements, and thus does not involve "comparing . . . to at least one predefined shape." They also argue that there is no comparison of "shape" because the software will recognize any configuration of points that fits within the given space and length requirements. The Court did not further construe "predefined shape," and the jury could have reasonably applied common sense to the evidence and concluded that the Tablet PC tap recognition procedure meets this limitation. The procedures include comparison of a gesture to a small box. Lucent's expert also opined that, as whole, the procedure compares the gesture to a tap, or small dot, which the jury could reasonably conclude is a "predefined shape" within the meaning of the claim. (*See, e.g.*, Trial Tr. VI 260:3-19.)

2. Substantial Evidence of Indirect Infringement

Microsoft argues that, as a matter of law, the evidence does not support a finding of indirect infringement.[20] This question concerns the Court's previous determination that products with front-mounted digitizers did not infringe the '295 patent. A pen position digitizer is part of a typical tablet PC's system for detecting the stylus location. (*See, e.g.*,

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[20] Though Dell joined in most aspects of Micro-soft's motion regarding the '295 patent, it did not join in this portion. (*See* Doc. No. 792.) Lucent also accused Dell of direct infringement of the '295 patent.

'295 Fig. 2, 6:20-22.) The Court previously granted summary judgment of no infringement as to certain products with a front-mounted digitizer. (*See* Order Granting Summ. Adjudication No Infringement '295 Patent, Case No. 02-CV-2060, Doc. No. 1226.) The Court reasoned that with the digitizer mounted in front, the stylus can never contact the "screen" as construed by the Court, thus preventing any infringement of the means-plus-function element "for detecting a stroke of the stylus tip in contact with the screen." (*Id.* at 4-7.)

Microsoft argues that there can be no inducement because it lacked the intent to induce computer manufacturers to use its Tablet PC software in systems using rear-mounted digitizers. As discussed above regarding the '356 patent, "[t]he plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements." *DSU Medical Corp.*, 471 F.3d at 1306 (quoting *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed.Cir.1990)). Lucent introduced evidence sufficient for the jury to reasonably conclude that Microsoft induced infringement of the '295 patent. Lucent introduced substantial evidence that Microsoft encouraged hardware manufacturers to use rear-mounted digitizers through technical specifications and other documents. (*See, e.g.*, PX 749 (containing Microsoft Tablet PC hardware specification, including digitizer capabilities).) Lucent's expert testified that, during the relevant time period, the only commercially available digitizers meeting Microsoft's requirements were rear-mounted. (*See, e.g.*, Trial Tr. VII 90:11-93:10.) Microsoft asserted the existence of front-mounted digitizer technology when the patent issued, but the jury could have reasonably

accepted the position of Lucent's expert, who stated that such technology was not commercially available during the relevant time frame. (*See* Trial Tr. VII 60:9-65:20.) Based on the evidence, the jury could have reasonably concluded that Microsoft encouraged use of its software in Tablet PCs and knew or should have known that it would be used in an infringing manner on Tablet PCs with rear-mounted digitizers.

Similarly, Microsoft challenges any finding of contributory infringement on the ground that its product was not "especially made" or "especially adapted" for infringement. *See*35 U.S.C. § 271(c). Lucent introduced substantial evidence sufficient for the jury to conclude that the product was especially made or adapted for use with rear-mounted digitizers since they were the only commercially available option. Furthermore, Lucent introduced substantial evidence that the accused gestures were necessary to normal operation of a Tablet PC, sufficient for the jury to conclude that there were not substantial non-infringing uses. (*See, e.g.*, PX 749 (Microsoft product documentation describing use of a Tablet PC running Windows software).) The Court also concludes that the infringement finding was not against the clear weight of the evidence.

3. The Means-Plus-Function Instructions

Defendants challenge the Court's decision to instruct the jury on the doctrine of equivalents concerning after-arising technology in the context of a means-plus-function infringement. The Court rejects Defendants argument that the Court's April 30, 2007, ruling on a motion in limine is a final order not subject to modification. (*See* Order on Mots. Limine for Group 4 Trial, Case No. 02-CV-2060, Doc. No. 1737 at 3.) On May 11, 2007, the Court vacated the

original trial date. (Case No. 02-CV-2060, Doc. No. 1780.) The remaining patents from 02-CV-2060 were consolidated for a single trial date in February, 2008, and issues related to those patents were severed to create this case. (*See* Doc. No. 1; Case No. 02-CV-2060, Doc. No. 1876.) On February 8, 2008, the Court held a new hearing on motions in limine for the consolidated trial. (*See* Doc. No. 496.)

The Court has the authority to depart from its ruling on a motion in limine, depending on the circumstances of trial. The Court advised the parties to object contemporaneously at trial regarding any ruling, as the Court would then have the full context of the proffered evidence. Defendants argued that certain aspects of the Tablet PCs were after-developed technology and therefore could not meet the means-plus-function elements under a literal infringement theory. *See Chiuminatta Concrete Concepts, Inc.*, 145 F.3d at 1310-11 (Fed.Cir.1998). In light of Defendants' argument, and all the circumstances of this case, the Court permitted Lucent to respond by arguing that the after-developed technology may satisfy a means-plus-function element under the doctrine of equivalents. *See, e.g., Al-Site Corp.*, 174 F.3d at 1320 n. 2 (Fed.Cir.1999) ("Patent policy supports application of the doctrine of equivalents to a claim element expressed in means-plus-function form in the case of 'after-arising' technology . . . ."). The Court instructed the jury accordingly.[21] The Court declines to grant judgment as a matter of law or a new trial based on its decision to allow the jury to consider the doctrine of equivalents.

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[21] Microsoft's current motion does not challenge the Court's jury instruction on the doctrine of equivalents.

4. Evidentiary Objection Regarding Expert Testimony

Defendants erroneously argue that Lucent's expert, Mr. Ward, testified about source code analysis not contained in his expert report, particularly how Tablet PC software recognizes tap gestures. (Trial Tr. VI 257:1-261:25.)[22] Mr. Ward's expert report of March 31, 2006, however, includes a discussion of specific Tablet PC source code, identified by filename. (*See* 3/31/2006 Ward Expert Report at ¶ 157.) Defendants were free to challenge his opinion on cross examination and introduce statements from his deposition that he did not analyze the "size and exact criteria" in certain source code when he prepared his report. (*See* Ward Depo. Tr., 6/15/06, 10:7-9.) Mr. Ward made this statement, however, in a context primarily involving Pocket PC, not Tablet PC software. (*See id.* 7:19-10:19.) In any case, the Court favors a determination on the merits and continues to exercise its discretion to allow the testimony. *See Childress v. Darby Lumber, Inc.*, 357 F.3d 1000, 1010 (9th Cir.2004) (reviewing denial of motion to exclude expert opinion based on violation of Fed.R.Civ.P. 26(a)(2)(B) for abuse of discretion).

5. The Court's Instructions on Indirect Infringement

For the '295 patent, Defendants incorporate by reference the same challenges to the sufficiency of the Court's jury instructions raised with the '356 patent. Defendants again point to *Hodosh*, 833 F.2d at 1578, for the proposition that the Court's instruction must

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[22] Microsoft raised this objection contemporaneously, and the Court allowed a standing objection on the Rule 26 issue. (*See* Trial Tr. VI 257:6-7, 258:5-7.)

focus the jury on "the thing sold." As with the '356 patent, extending *Hodosh* to the present circumstances would produce the opposite result sought by that opinion. Rather than ensuring patent protection, Defendants' reading would allow an infringer to avoid liability merely by packaging an infringing component with a noninfringing component. *See id.* at 1578 ("The drafters of the section explicitly recognized that without protection from contributory infringers, owners of method patents, like the owner here, would have no effective protection."); *Philips Elecs. N. Am. Corp.*, 411 F.Supp.2d at 476 (D.Del.2006) ("[I]t would indeed violate the 'logic of the patent laws' to allow a potential infringer to avoid liability for contributory infringement by simply adding a noninfringing function to a device that practices a patented method.").

Defendants also incorporate their argument that the Court provided insufficient instructions on the intent required for inducement. The Court properly instructed the jury that it is sufficient, in relevant part, that the alleged infringer "knew or should have known his actions would induce actual infringements." *DSU Medical Corp.*, 471 F.3d at 1306 (quoting *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed.Cir.1990)). In summary, the Court denies Defendants' request for a new trial based on the instructions for indirect infringement.

6. Claim Construction

Defendants seek judgment as a matter of law or a new trial based on alleged errors in the Court's claim construction. First, Defendants object to the Court's definition of the corresponding structure for the "means coupled to said computer for recognizing a plurality of said gestures, said recognizing means including means for comparing each said gesture to

at least one predefined shape." The Court identified the corresponding structure as a processor running one of three handwriting recognition algorithms.

"Structure supporting a means-plus-function claim . . . must appear in the specification." *Atmel Corp. v. Info. Storage Devices, Inc.*, 198 F.3d 1374, 1381 (Fed.Cir.1999) This determination "must be made in light of the knowledge of one skilled in the art." *Id.* at 1380. "[D]isclosure of structure corresponding to a means-plus-function limitation may be implicit in the written description if it would have been clear to those skilled in the art what structure must perform the function recited in the means-plus-function limitation." *Id.* (quoting with approval PTO Supplemental Examiner Guidelines on Applying 35 U.S.C. 112 ¶ 6, 58 Fed.Reg. 443, 444 & nn. 12-13 (1999)). "[K]nowledge of one skilled in the art can be called upon to flesh out a particular structural reference . . . ." *Creo Prods., Inc. v. Presstek, Inc.*, 305 F.3d 1337, 1347 (Fed.Cir.2002). Citing the title of an article may be sufficient to disclose structure, where it would provide sufficient indication of the structure to one skilled in the art. *See Atmel Corp.*, 198 F.3d at 1382.

The Court concludes that one skilled in the art would have recognized the relevant algorithms as part of the structure disclosed by the '295 patent. The external sources incorporated by the claim construction, an IEEE article and a related patent, are both expressly cited in the patent and indicate the nature of the information contained in them. (*See* '295 4:41-46, 5:1-6.) For example, the IEEE article is entitled "Automatic Recognition of Handprinted Characters—The State of the Art." Furthermore, the element in question is only one part of a claim with several other

means-plus-function elements, each with disclosed structure, and it was reasonable for the patentee to rely on the knowledge of one skilled in the art in describing this aspect of the invention. *See, e.g., Atmel Corp.* 198 F.3d at 1382 ("The requirement of specific structure in § 112, ¶ 6 . . . does not raise the specter of an unending disclosure of what everyone in the field knows . . . .").

Defendants also challenge the Court's construction of the "second detecting means" and "means . . . for defining termination." They argue that the Court's construction should have required proximity detection to terminate a gesture and that Lucent failed to present evidence on this issue. This does not warrant judgment as a matter of law or a new trial. First, the Court concludes that its construction of claim 1 appropriately omitted proximity detection. Dependent claim 3 adds proximity detection as a further limitation, and including it in claim 1 would render claim 3 superfluous. Courts presume that dependent claims are narrower in scope than the claims on which they depend. *See, e.g., Regents of Univ. of Cal. v. Dakocytomation Cal., Inc.*, 517 F.3d 1364, 1375 (Fed.Cir.2008). Defendants did not overcome this presumption. *Cf. id.* at 1375-76 (holding that evidence in prosecution history overcame the presumption). Furthermore, Lucent did introduce evidence of proximity detection in the accused products. (*See, e.g.*, PX 749 (setting out Microsoft's Tablet PC hardware requirements, including proximity detection).)

B. Damages

Microsoft argues that it should receive a new trial or remittitur of the jury's allegedly speculative lump-

sum award of $10.35 million.[23] A jury may arrive at a royalty rate or lump-sum different than those offered by the parties' experts, if supported by substantial evidence. *See, e.g., Fuji Photo Film Co.*, 394 F.3d at 1378. In this case, substantial evidence supports the jury's award. For example, Microsoft introduced lump-sum agreements licensing patents for similar technologies at $10 million and $30 million. (*See* DX BCH, BCI; Trial Tr. XVI 186:3-187:23, 205:21-206:20.) The $30 million license covered only two graphical user interface patents. (Trial Tr. XVI 205:21-206:20.) Lucent also introduced evidence supporting its 1% royalty theory, including its expert testimony and sample license agreements. (*See, e.g.*, PX 5137, 5139-41; Trial Tr. VIII 200:18-201:3, 202:2-14, 203:10-20, IX 15:1-21.) In addition, Lucent introduced substantial evidence, in the form of expert testimony and marketing materials, sufficient for the jury to reasonably conclude that the '295 patent is important to the success of stylus based computing and customer demand for Tablet PCs. (*See, e.g.*, PX 5206A, Trial Tr. VI 186:16-187:19, 237:18-238:11 (technical expert opining that patent improved capability and flexibility of interface across different applications and contexts); IX 33:12-44:19 (damages expert discussing importance of patented feature in Tablet PCs).)

Defendants also challenge the lump-sum royalty awards against Microsoft and Dell as improper applications of the entire market value rule. First, the Court concludes that the lump-sum damage awards do not necessarily reflect an entire market

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[23] Dell does not join in this aspect of Microsoft's motion, though it does join in Microsoft's argument that the damages for the '295 patent violate the entire market value rule.

value calculation. The jury did not adopt either expert's recommendation,[24] and the jury was free to consider a wide variety of factors in the evidence, not just the actual sales revenue. Nevertheless, even if the entire market value rule applies, the Court determines that substantial evidence supports Lucent's theory. Lucent introduced substantial evidence tying the patented technology to the commercial success of Tablet PCs. (*See, e.g.*, PX 5206A, Trial Tr. VI 186:16-187:19, 237:18-238:11; IX 33:12-44:19.) Furthermore, the Court concludes that the damages awarded against Microsoft and Dell for the '295 patent were not against the clear weight of the evidence.

C. Summary

As to the '295 patent, the Court DENIES all motions for judgment as a matter of law and all motions for a new trial or remittitur.

V. Fleming '759

A. Pre-Suit Notice

Lucent challenges the jury's finding that it failed to prove by a preponderance of the evidence that it gave pre-suit notice to Dell. *See Dunlap v. Schofield*, 152 U.S. 244, 248, 14 S.Ct. 576, 38 L.Ed. 426 (1894); *Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1111-12 (Fed.Cir.1996) (burden of showing compliance with section 287(a) is on patentee). The '759 patent expired before this litigation began. Under 35 U.S.C. § 287(a), a party required to give pre-suit notice in order to recover damages must provide "affirmative communication of a specific charge of infringement by

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[24] While the jury returned a verdict of $51,000 against Dell, as advocated by Lucent, it did not do so using a running royalty theory.

a specific accused product or device." *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 187 (Fed.Cir.1994). This inquiry focuses on the actions of the patentee, not the subjective belief of the accused infringer. *Gart v. Logitech, Inc.*, 254 F.3d 1334, 1346 (Fed.Cir.2001). The communication must provide "sufficient specificity regarding [the patentee's] belief that the recipient may be an infringer." *Id.*

Lucent presented evidence of an October 20, 1998 meeting that allegedly provided notice of infringement for the '759 patent. (*See, e.g.*, Trial Tr. VII 133:24-135:6, VIII 32:1-33:3, XIII 136:15-142:14, PX 1875-76, PX 351A-B.) Lucent also offered evidence of a meeting on December 16, 1998, which included a video demonstration.[25] (*See, e.g.*, PX 5057 (e-mail confirming meeting); DX EOK (video demonstration).) The video begins by showing a Dell Inspiron 3000 M223XT installed with Windows. Lucent then ran a demonstration on the computer, purportedly demonstrating the three modes of access involved in the '759 patent.

Had the Court been the fact finder, it would have concluded that Lucent gave sufficient notice. This was a jury question, however, and there is substantial evidence to support the verdict. For example, given the passage of time, the jury may have reasonably doubted the accuracy of Lucent's witnesses. The jury may have also accepted Dell's theory that the video demonstration did not implicate Windows. (*See, e.g.*, Trial Tr. XIII 187:18-188:20 (Dell's witness characterizing the video demonstration as

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[25] Though Dell disputes the characterization of these meetings and the materials presented there, it does not dispute that they took place.

being purely based in DOS, an older operating system).)

The subsequent indemnification letter sent from Dell to Microsoft would have persuaded the Court, as a fact finder. Nevertheless, it does not require the Court to alter the jury's finding. (*See, e.g.*, PX 355 (indemnification notice of January 12, 1999).) Dell sent the letter to inform Microsoft that Lucent had made a "charge of infringement" regarding seven patents, including '759, and that these accusations "potentially impact products that we have purchased from Microsoft, including Windows 98." (*Id.*) The letter may provide evidence of actual notice by the patentee, but this was a matter for the jury. The jury could have reasonably concluded that although Microsoft's letter characterized the meeting as presenting a "charge of infringement," the actual notice given did not meet the legal standard, which does not depend on the accused's subjective belief. *Gart*, 254 F.3d at 1346.

The Court also concludes that the jury's finding of no pre-suit notice was not against the clear weight of the evidence. Though the Court would have weighed the evidence differently, the jury's determination does not warrant a new trial.

B. Infringement

Lucent seeks judgment as a matter of law or a new trial that Dell infringed claim 1 of the '759 patent. First, the Court notes that recovery may be unavailable since Lucent did not establish pre-suit notice, and the patent expired before it brought this action against Dell. Furthermore, the Court concludes that judgment as a matter of law is not required under Lucent's infringement theories. For similar reasons,

the Court also concludes that the jury's finding of no infringement is not against the clear weight of the evidence.

1. Evidence of Noninfringement

Substantial evidence supports a finding that the structures related to GDI differ substantially from the "processing means" element of claim 1. "The proper test is whether the differences between the structure in the accused device and any disclosed in the specification are insubstantial." *Chiuminatta Concrete Concepts, Inc.*, 145 F.3d at 1309. The structure for the processing means element includes a quantitative algorithm that sets to color mode based on the number of operands sent to the mode selection function. (*See* '759 Fig. 4.) In contrast, Dell introduced substantial evidence that the accused portions of GDI use a qualitative algorithm, meaning one in which the number of operands is constant and the mode selection, if any, depends on the values passed through the operands. (*See, e.g.*, Trial Tr. XI 99: 5-105:20 (testimony of Dell's expert, Dr. Wedig, on this issue); *see also* Trial Tr. IV 167:3-11 (testimony of Lucent's expert Mr. Richter, also stating that accused algorithm is qualitative, not quantitative).) The jury could reasonably conclude that these differences were substantial, and that the accused structure was not an equivalent. Lucent cites to deposition testimony from Dr. Wedig allegedly conceding that qualitative and quantitative algorithms are equivalent. (*See* Trial Tr. XVII 200:13-17 (acknowledging that "qualitative commands for selecting modes of access were known prior to [the '759 patent].")) The jury could reasonably interpret Dr. Wedig's statement as merely conceding that qualitative commands were

known prior the patent, not that the differences were insubstantial. (*See id.*)

Dell also introduced substantial evidence that the accused structure could not perform the function of the processing means element. Dr. Wedig offered his analysis that the commands identified by Mr. Richter merely involved setting specific colors, not selecting modes of color access. (*See, e.g.*, Trial Tr. XI 88:13-24, 89:5-94:9, 95:4-10; *see also* PX 3901 (Microsoft GDI documentation).) The jury could have reasonably accepted this analysis and concluded that the accused structure was not able to perform the function of selecting a mode of access. The Court declines to reach Dell's other arguments, having concluded that there are adequate grounds to deny Lucent's motion for judgment as a matter of law or new trial.[26]

2. Requests for Further Instructions

The Court denies Lucent's request for a new trial based on argument offered by Dell concerning the structure of the processing means elements. In construing the structure, the Court's expressly excluded text related to setting colors, as opposed to selecting modes of access. The disputed statements are consistent with the position that the claim construction only excluded structures when they perform color-setting alone, not that the Court excluded structure performing both functions. (*See, e.g.*, Trial Tr. XI 90:16-19, 91:11-14, 94:23-95:3 (excerpts from Dr. Wedig's direct examination).) Lucent did not raise

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[26] Dell also argued, for example, that: (1) its products do not include a processor programmed to perform an algorithm for selecting a mode of access, (2) the accused products are not "responsive to a predetermined command and data sequence," and (3) the accused products employ after-developed technology.

contemporaneous objections, and even assuming that its objections are preserved, the Court concludes that Lucent had an adequate opportunity to respond to Dell's arguments and explain its infringement theory to the jury.

Lucent also seeks a new trial based on the Court's infringement instructions. Lucent argues that Dell misled the jury by suggesting that infringement of claim 1 required that the "predetermined command and data sequences" must have actually been used, and that the Court should have issued further instructions explaining why this is not required. (*See, e.g.*, Trial Tr. XI 155:13-18, 156:4-10, 156:25-157:11 (excerpts from Dr. Wedig's testimony arguing that Lucent failed to show that the sequences are actually used).) A new trial is not needed. First, the Court properly instructed the jury that infringement is not limited to using the invention and may include "importing, making, using, offering to sell, or selling." (Jury Instruction 16, Doc. No. 735.) The Court also explained the role of the function and structure in means-plus-function elements. (Jury Instruction 19, Doc. No. 735.) Furthermore, Lucent had adequate opportunity to respond to Dell's arguments and explain its infringement theory. Finally, there were ample grounds for the jury to enter a finding a no infringement, independent of this issue.

C. Equitable Defenses

The jury entered advisory verdicts of no laches and no inequitable conduct with respect to Lucent's claims for the '759 patent. Dell did not challenge these conclusions in its post-trial briefing, and neither party submitted proposed findings of fact or conclusions of law under the briefing schedule provided by the Court. The ultimate determination of

these issues rests with the Court. *See, e.g.*, *Huser*, 513 F.2d at 1299. As neither party has disputed the advisory verdicts at this stage of the proceedings, and the Court has reached the same conclusions on the trial record without deference to the jury on these questions, the Court adopts the advisory verdicts in their entirety as they relate to the '759 patent.

D. Summary

As to the '759 patent, the Court DENIES all motions for judgment as a matter of law and all motions for a new trial. The Court follows the jury's advisory verdicts as they relate to the '759 patent. The Court finds no laches and no inequitable conduct as to the '759 patent.

Conclusion

I. Matters Tried to the Bench

For the reasons set forth above, the Court follows the jury's advisory verdicts on equitable issues in part. The Court finds no laches for either the '226 or '759 patents. Furthermore, the Court finds no inequitable conduct for either the '226 or '759 patents.

II. Motions for JMOL, New Trial, or Remittitur

As to the '356, '295, and '759 patents, the Court DENIES all motions for judgment as a matter of law, new trial, or remittitur. As to the '226 patent, the Court GRANTS Lucent's motion for judgment as a matter of law that the '226 is not invalid for obviousness. The Court DENIES all other motions for judgment as a matter of law or new trial regarding the '226 patent.

III. Closing Remarks

The Court takes this opportunity to compliment all attorneys involved for their excellent work in these proceedings. Counsel for all parties worked diligently to accommodate the Court's schedule, prepared their materials thoroughly, and conducted themselves in a professional and courteous manner that does credit to their profession.

IT IS SO ORDERED.

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

2008-1485, -1487, 1495

LUCENT TECHNOLOGIES, INC.,
Plaintiff / Counterclaim Defendant, Cross Appellant,

and

LUCENT TECHNOLOGIES GUARDIAN I LLC,
Counterclaim Defendant,

and

MULTIMEDIA PATENT TRUST,
Plaintiff / Counterclaim Defendant,

v.

GATEWAY, INC., GATEWAY COUNTRY STORES LLC,
GATEWAY COMPANIES, INC.,
COWABUNGA ENTERPRISES, INC., and
GATEWAY MANUFACTURING LLC,
Defendants / Counterclaimants,

and

DELL INC.,
Defendant / Counterclaimant,

and

MICROSOFT CORPORATION,
Defendant / Counterclaimant-Appellant.

Appeals from the United States District Court for the Southern District of California in case no. 07-CV-2000, Judge Marilyn L. Huff.

ORDER

A petition for rehearing en banc having been filed by the Appellant, and a response thereto having been invited by the court and filed by the Cross-Appellant, and the matter having first been referred as a petition for rehearing to the panel that heard the appeal, and thereafter the petition for rehearing en banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on November 30, 2009.

FOR THE COURT,

/s/ Jan Horbaly
Jan Horbaly
Clerk

Dated: 11/23/2009

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* The court granted leave to file a brief in support of Appellant Microsoft's petition for rehearing en banc to three groups of amici curiae: I) Acushnet Company, Electrolux Home Products, Inc. and Pregis Corporation; 2) Cisco Systems, Inc., Symantec Corporation, and Yahoo! Inc., and 3) Google Inc., Hewlett-Packard Company, Intel Corporation, and Shoretel, Inc.

Supreme Court, U.S.
FILED
APR 23 2010
OFFICE OF THE CLERK

No. 09-1006

In the
Supreme Court of the United States

MICROSOFT CORPORATION,
Petitioner,

v.

LUCENT TECHNOLOGIES INC.,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF IN OPPOSITION

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QUESTION PRESENTED

Whether, based on the specific facts presented during a four-week patent infringement trial, the district court and the Federal Circuit properly applied the well-settled standards for resolving petitioner's post-trial motions.

CORPORATE DISCLOSURE STATEMENT

Respondent Lucent Technologies Inc. changed its name to Alcatel-Lucent USA Inc. on November 1, 2008. Alcatel-Lucent USA Inc. (formerly Lucent Technologies Inc.), is an indirect wholly owned subsidiary of Alcatel Lucent, a publicly held company organized under the laws of the Republic of France. No other publicly held company owns 10% or more of its stock.

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INTRODUCTION

The petition for certiorari in this case is wholly contrived: it presents questions that were never raised below, conjures up illusory intra- and inter-circuit splits, and asks this Court to review an interlocutory decision for classic fact-bound error correction. Tellingly, petitioner Microsoft launches a broadside attack on the jury system itself and a wholesale attack against Federal Circuit decisions in unrelated cases on unrelated issues, which provide no basis for granting the petition *based on the facts in this case*. The petition should therefore be denied.

Despite Microsoft's rhetoric, the Federal Circuit broke no new legal ground in this case, but merely applied the settled precedent of the regional circuit within which the case was tried to the unique facts presented. Having lost at trial, and before both the district court and the Federal Circuit in its attempt to overturn the jury's verdict, Microsoft now asks this Court to step in and reweigh each piece of evidence on which the Federal Circuit relied in holding that the district court did not abuse its discretion in upholding the jury verdict on infringement. This Court does not sit to review such quintessentially fact-specific exercises trusted to the lower courts, *see Graver Tank & Manufacturing Co. v. Linde Air Products Co.*, 336 U.S. 271, 275 (1949) ("this Court" is not "a court for correction of errors in fact finding"), especially when those factual issues are presented in an interlocutory petition, *see Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251, 258 (1916) (noting the interlocutory nature

of the petition "alone furnishe[s] sufficient ground for the denial of the application").

Far from presenting an issue of pressing national importance on which there is deep division within the Federal Circuit, much less among the federal courts of appeals writ large, Microsoft's petition itself demonstrates that the standard for overturning a jury verdict is well-settled and is the subject of substantial agreement between the parties and both lower courts in this case. Indeed, even if the Federal Circuit misstated or misapplied that standard in this case—which it did not—Microsoft denied the Federal Circuit the opportunity to correct that alleged error by failing to raise this issue at all in its petition for rehearing. This Court "sits as a court of review," *Duignan v. United States*, 274 U.S. 195, 200 (1927), not a court of first impression, and thus does not grant certiorari "when the question presented was not pressed or passed upon below," *United States v. Williams*, 504 U.S. 36, 41 (1992) (internal quotations omitted).

For all its hyperbole, Microsoft has not presented an issue worthy of this Court's discretionary review. Given the unique facts of this case and Microsoft's failure to identify either an issue of exceptional importance or a genuine conflict warranting this Court's intervention—either within the Federal Circuit or among the circuits more broadly—this case presents *no occasion* to reweigh the evidence presented at trial, jettison well-settled precedent for overturning a jury verdict, or engage in the wholesale revision of the jury system in patent cases

that Microsoft apparently now seeks. Thus, the petition should be denied.

COUNTERSTATEMENT OF THE CASE

A. The Day Patent

Nearly 25 years ago, when personal computing technology was in a state of relative infancy, scientists at AT&T's Bell Laboratories invented a new method of entering information into computers. App. 3a. Before that invention, computer form-entry systems were largely text-based and required users to input information manually. Fed. Cir. Joint Appendix ("JA") 01108 at 1:8-22. The invention, disclosed in U.S. Patent No. 4,763,356 (the "Day patent" or " '356 patent"), involves displaying and completing computerized forms with the assistance of onscreen forms and tools. *Id.* at 1:25-37; App. 3a. Users of the invention can complete onscreen forms by operating pop-up tools adapted to facilitate entry of the particular type of information required by a particular section of the form. JA01108 at 1:25-37; App 3a. Those tools include menus, on-screen keyboards, and on-screen calculators. JA01093, JA01095, JA01097, JA01109 at 3:51-57, JA01110 at 5:1-5, JA01111 at 7:24-32.

The Day patent has 22 claims, and Claims 19 and 21 are at issue here:

Claim 19 is an independent claim for a method whose steps include: (1) displaying an onscreen form with two or more information fields, (2) identifying the type of information to be inputted into each field, (3) indicating one of the fields for information entry,

(4) displaying a predefined onscreen tool associated with the identified field and adapted to supply the information required by the field, and (5) inserting into the identified field information derived from a user's use of the onscreen tool. App. 7a-8a; JA01116.

Claim 21 depends from Claim 19 and adds the additional step of "displaying one or more of said information fields as a bit-mapped graphics field." App. 8a; JA01116.

Several of the patent drawings illustrate aspects of the invention using the example of a form to place an order for an automobile. JA01092-1100. As the user steps through different data fields (such as model, year, tires, order quantity, and "bid date"), different pop-up tools appear on the screen to facilitate entry of data into each particular field. For example, figure 3 illustrates how a menu tool might appear onscreen with options such as "roadster," "4 dr. sedan," and "convertible" to facilitate the entry of data into the "model" field. And figure 5 illustrates how a calculator might appear onscreen to facilitate the entry of data into the "order quantity" field.

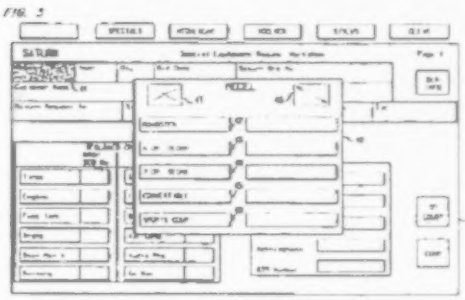

Fig. 3 (JA01093)

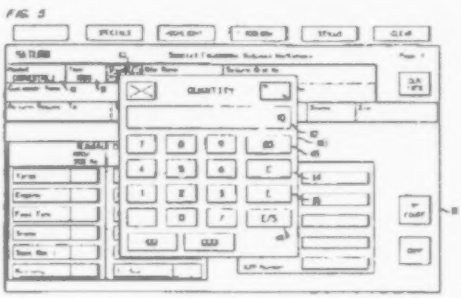

Fig. 5 (App. 9a; JA01095)

The Day patent expired in December 2006.

B. District Court Proceedings

1. In an action in the U.S. District Court for the Southern District of California, Lucent alleged that Microsoft Corporation ("Microsoft") and Dell Inc. ("Dell") indirectly infringed the Day patent by selling products designed to infringe and by instructing their customers to use those products in an infringing way. Specifically, Lucent alleged that the normal and intended uses of certain features of Microsoft Outlook, Microsoft Money, and Windows Mobile infringe Claims 19 and 21 of the Day patent. Among other things, Microsoft designed, sold, marketed and supported the infringing software and provided directions for using it in an infringing way. And Dell sold, marketed and supported computers preloaded with that infringing software, and additionally provided support and directions for using the software.

In support of its allegations, Lucent presented evidence to the jury over the course of a four-week trial, which also involved three other patents not at issue here. The evidence concerning infringement based on Microsoft Outlook focused on the Outlook calendar tool. In that regard, Lucent's expert witness Bruce Tognazzini explained how the software operates in a manner that infringes the Day patent. *See* JA07526-29; JA07531-33; JA08654-55. Lucent corroborated his testimony with testimony from Microsoft's witnesses, JA08086, as well as evidence including screen shots and video demonstrations of the Outlook software being used to infringe the Day patent. *See* JA16203-08; JA44237-81; JA11846; JA07529.

Lucent also presented evidence—including help files, tutorials, web pages, manuals, promotional materials, screen shots, video demonstrations of the software, and witness testimony—showing that Microsoft and Dell encouraged their customers to use all three software products in an infringing way. App. 94-95a (citing PX742 (excerpts of Microsoft Money user's guides); PX1139B (excerpt from Microsoft Outlook help files); PX651 (user's guide for Microsoft Windows Mobile product)). The evidence showed that Microsoft and Dell sold approximately *110 million* units of the three software products equipped to practice the claims of the Day patent. App. 35a.

Microsoft and Dell presented evidence and argument of their own in an attempt to rebut Lucent's infringement allegations, and also defended on the ground that Claims 19 and 21 of the Day patent were invalid for anticipation and obviousness in light of prior art. *See* 35 U.S.C. §§ 102-103.

Finally, the jury heard evidence from both sides regarding the appropriate amount of damages to be awarded to Lucent if the jury should find that the Day patent was infringed and not invalid. The Patent Act entitles a patentee to at least a "reasonable royalty" upon proof of infringement, 35 U.S.C. § 284, App. 104a, and the jury was instructed that a "reasonable royalty is the amount of money that would be agreed to in a hypothetical arm's-length negotiation between the plaintiffs and the defendants, with the parties operating under the assumptions that the negotiated patent is valid and would be infringed by the accused products."

JA00147. Microsoft argued that the jury should calculate damages using a "lump-sum" approach and should award Lucent $6.5 million for all three products if it awarded damages. App. 104a-105a. Lucent argued for an 8% royalty, using actual sales of the infringing software as a base, and argued that Microsoft should pay approximately $687 million if the jury found infringement. App. 104a-105a & n. 7.

2. The jury returned a special verdict on all four patents. For the Day patent, the jury was asked to indicate whether each defendant indirectly infringed the claims of the Day patent, and to specify which software products and which claims formed the basis of its verdict. App. 76a; JA00063-64. The jury was instructed on both types of indirect infringement—induced infringement under 35 U.S.C. § 271(b) and contributory infringement under 35 U.S.C. § 271(c)—JA00101-108, but was not asked to render separate verdicts on each. App. 4a, 76a, 97a, 100a. The jury found Microsoft liable for infringement of both claims: Claim 19 as to Microsoft Money, Microsoft Outlook and Windows Mobile and Claim 21 as to Windows Mobile. App. 4a, 76a. The jury found that Dell was not liable for infringement of either claim. *Id.* Moreover, the jury rejected the defendants' invalidity defenses. JA00065.

Regarding damages, the jury did not fully adopt either side's approach. The jury opted for the lump-sum approach that Microsoft urged at trial, and awarded Lucent $357,693,056.18—a sum considerably greater than the figure Microsoft urged, but slightly less than 53% of the figure that Lucent requested. App. 4a, 39a, 104a-105a.

3. After trial, Microsoft and Lucent both filed motions for judgment as a matter of law or a new trial, and Microsoft sought a remittitur of the damages award. Among other things, Microsoft challenged the sufficiency of the evidence supporting the jury's finding of infringement, the jury's rejection of Microsoft's invalidity defenses, and the jury's damage award. App. 73a, 83a, 86a, 89a-90a, 104a-105a. Lucent challenged the jury's finding that Dell did not infringe. App. 73a, 101a.

In ruling on the parties' post-trial motions, the district court recognized, *inter alia*, that Ninth Circuit law applied, that motions for judgment as a matter of law should be denied if the jury's verdict is supported by "substantial evidence," and that the court could grant a new trial if "the verdict is contrary to the clear weight of the evidence, or is based upon evidence which is false, or to prevent, in the sound discretion of the trial court, a miscarriage of justice." App. 81-82a (quoting cases). The district court denied all of the parties' post-trial motions regarding the Day patent. App. 83a-109a.

The district court assessed the evidentiary support for the jury's infringement verdict in some detail. App. 89a-101a. In addressing Microsoft's argument that Lucent failed to prove specific acts of direct infringement, App. 93a-96a, the district court found that "Lucent introduced sufficient circumstantial evidence for the jury to conclude that Microsoft customers actually used the software to carry out the method steps of the '356 patent ... A reasonable jury could have reviewed this extensive record and concluded, based on the circumstantial

evidence, that there was direct infringement." App. 94a-95a. The district court also rejected Microsoft's post-trial challenge to the credibility of Lucent's expert, noting that "[t]he jury also assessed his credibility and rendered its verdict." App. 93a.

In ruling on Lucent's challenge to the jury's verdict that Dell did not infringe, the district court again looked closely at the evidence of infringement and noted that "[n]ot all of the documents and evidence necessarily implicated Dell." App. 101a. Moreover, the court determined, the jury could reasonably have determined that Dell was not as culpable as Microsoft in encouraging infringement, as "Dell is a reseller of the accused Microsoft software, while Microsoft is the designer and programmer." App. 102a. In defending the jury's finding that Dell did not infringe, Dell also pressed Microsoft's argument that Lucent failed to present sufficient evidence of direct infringement by customers. *Id.* However, the district court explicitly rejected that argument and stated that "the Court does not rely on this part of Dell's argument in upholding the jury's verdict on the Microsoft products." *Id.*

4. Microsoft and Dell appealed to the U.S. Court of Appeals for the Federal Circuit (the jury had found Dell liable for infringement of another patent). During the pendency of the appeal, Dell and Lucent settled, Pet. ii, and Microsoft and Lucent executed a stipulation dismissing all claims between them except those relating to the Day patent. App. 4a n.2.

C. Federal Circuit Proceedings

1. On appeal, Microsoft again challenged the sufficiency of the evidence supporting the jury's finding of infringement, the jury's rejection of Microsoft's obviousness defense, and the jury's damage award. App. 2a. The Federal Circuit upheld the jury's verdict of infringement and nonobviousness, but vacated the jury's damage award and remanded for a new trial. App. 2a, 70a-71a. Lucent also cross-appealed the district court's earlier grant of summary judgment on other claims of the Day patent, but the court affirmed that ruling, App. 70a, and those claims are not at issue here.

In reviewing the district court's decision to deny Microsoft's motions for judgment as a matter of law and for a new trial, the court of appeals applied the same standard of review as the district court applied to the jury's verdict. App. 5a. Like the district court, the court of appeals recognized that Ninth Circuit law applied, *id.*, that a motion for judgment as a matter of law should be denied if the jury's verdict is supported by substantial evidence, and that the court should grant a new trial if "'the verdict is against the clear weight of the evidence.'" App. 6a (quoting *Pavao v. Pagey*, 307 F.3d 915, 918 (9th Cir. 2002)).

First, the court of appeals affirmed the district court's decision not to disturb the jury's verdict of nonobviousness. App. 7a-21a. The court reviewed the evidence at length and concluded that a reasonable jury could have found that Microsoft did not meet its burden to prove, by "clear and

convincing evidence," that claims 19 and 21 of the Day patent were obvious. App. 19a, 21a.

Next, the court of appeals affirmed the district court's decision not to disturb the jury's infringement verdict. App. 21a-35a. The court rejected Microsoft's argument that "Lucent failed to introduce any evidence that any customer actually used the claimed method in any of the Microsoft products." App. 22a. The court reviewed the evidence and found that "[t]he circumstantial documentary evidence, supplementing the experts' testimony, was just barely sufficient to permit the jury to find direct infringement by a preponderance of the evidence." App. 24a-25a. Moreover, the court agreed with Lucent's characterization of its evidence at trial:

> As Lucent notes "Microsoft not only designed the accused products to practice the claimed invention, but also instructed its customers to use the accused products in an infringing way."

App. 24a. That quoted phrase appears at page 21 of Lucent's opening brief at the Federal Circuit, and is immediately followed by a lengthy citation to the record evidence, including testimony by Lucent's experts at trial, deposition testimony of Microsoft employees shown at trial, and various exhibits explaining how the accused products work. *See* Lucent Fed. Cir. Resp. Br. at 21 (citing JA44258-59; JA44277-79; JA07443; JA15763-67; JA44237-81; JA07801; JA15768-69; JA15775-85; JA15961-6005; JA16016-177; JA16369-413; JA45040-68; JA66710-11; JA66707-09). Microsoft unsurprisingly disputed the nature and quality of some of that evidence in its

reply brief. Microsoft Fed. Cir. Rep. Br. at 31-32 & n. 11. However, the court found that the evidence was sufficient to sustain the jury verdict against Microsoft's motion for judgment as a matter of law, and to support the district court's exercise of discretion in denying a new trial. App. 24a-25a. The court went on to reject Microsoft's other arguments regarding infringement, and affirmed the district court's holding in that regard. App. 24a-35a.

The court of appeals did, however, vacate the jury's damages award, finding that "substantial evidence does not support the jury's verdict of a lump-sum royalty payment of $357,693,056.18." App. 36a. The court examined Lucent's evidence at length, App. 35a-70a, and ultimately concluded that the damage award was "against the clear weight of the evidence." App. 36a, 61a. The court noted that "[i]t is well established that speculation does not constitute 'substantial evidence,'" App. 44a, and found that the connection between the licenses of record and the damages awarded by the jury was too speculative. App. 42a-48a. The court, thus, vacated the damages award and remanded for a new trial on damages. App. 69a-70a.

2. Microsoft petitioned for rehearing en banc, arguing that the Federal Circuit should overrule its prior precedents and change the law of invalidity. An issued U.S. patent is presumed valid, 35 U.S.C. § 282, and an accused infringer who defends on the ground that a patent is invalid must prove the invalidity of the patent by "clear and convincing evidence." App. 19a, 86a. Microsoft's en banc petition argued that the Federal Circuit should make

an exception to that rule and hold that the standard of proof is a preponderance of the evidence when the accused infringer raises a defense of invalidity in light of prior art and the patent office did not consider the asserted prior art when it issued the patent. The Federal Circuit called for a response from Lucent and subsequently denied Microsoft's petition without comment. App. 147a-148a.

Microsoft did not petition for panel rehearing, nor did its en banc petition raise any of the issues now presented in its petition for certiorari. Microsoft never argued that the panel had misapplied the standards for granting judgment as a matter of law or a new trial, much less that it had "adopted and applied new and unique substantive standards for post-trial review of jury verdicts of infringement." Pet. 11; *see id.* at 4.

The Federal Circuit's mandate issued on November 30, 2009, and proceedings in the district court on remand are ongoing. No. 3:07-CV-2000-H (S.D. Cal.). The case has been set for trial on December 3, 2010.

REASONS FOR DENYING THE WRIT

This petition is not worthy of this Court's review for three simple reasons.

First, Microsoft has presented a classic challenge to the factual determinations and assessments made by the jury and the courts below. Distilled to its essence, Microsoft argues that the Federal Circuit erred in affirming the district court's holding that Lucent presented sufficient evidence to support the

jury's verdict of indirect infringement. Despite Microsoft's rhetoric, no dispute exists regarding the appropriate standards for setting aside a jury verdict. Instead, Microsoft challenges the application of those standards to the facts in this case. But this Court, of course, does not sit to provide such fact-bound error correction.

Second, there is no merit to Microsoft's claim that the Federal Circuit "adopted and applied new and unique substantive standards for post-trial review of jury verdicts of infringement." Pet. 11. Instead, the court of appeals correctly recognized that it was bound to apply Ninth Circuit law in this case and explicitly stated that it was applying the standards as established by that court. App. 5-6a. Nor is there any merit to Microsoft's, repeated yet unsupported, claim that the Federal Circuit held that the jury's verdict of infringement was "against the clear weight of the evidence," but nonetheless failed to grant Microsoft a new trial. *See* Pet. 10, 11, 25. Indeed, the court of appeals held that the district court did not abuse its discretion in holding that the infringement verdict was supported by substantial evidence. App. 26-27a. Moreover, to the extent Microsoft argues that the court of appeals misstated, misapplied, or modified that standard, the Federal Circuit should have been given the chance to correct any such "error" in the first instance. But Microsoft did not raise this issue in its petition for rehearing en banc and did not seek panel rehearing at all. This Court does not sit to consider issues first raised in a petition for certiorari, and thus the writ should be denied.

Third, the petition is interlocutory, as the Federal Circuit vacated the jury's damages award and remanded to the district court for a new trial on damages. *See* App. 36a, 61a, 66a. As a result, there is no final judgment for this Court to review. That alone counsels against granting the petition.

I. Microsoft Challenges The Application Of Settled Law To The Facts In This Case And Asks This Court To Engage In Classic Fact-Bound Error Correction.

As this Court cautions litigants in its rules, "[a] petition for a writ of certiorari is rarely granted when the asserted error consists of erroneous factual findings or the misapplication of a properly stated rule of law." Sup. Ct. R. 10. Microsoft, however, devotes the majority of its petition to challenging the lower court's application of well-settled law to the facts of this case. At bottom, Microsoft argues that the evidence presented in this case was not sufficient to support the jury's indirect infringement verdict. Microsoft thus raises the same fact-bound challenges that were rejected by the district court and by the Federal Circuit.

1. As an initial matter, Microsoft challenges the application of undisputed, legal principles to the facts of this case. For instance, it is undisputed that to establish that Microsoft indirectly infringed the Day patent, Lucent was required to prove direct infringement as well. *See e.g.*, *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 341 (1961). Indeed, both the district court and the Federal Circuit properly identified this principle and applied it in this case. *See* App. 21a, 93a.

Applying these undisputed principles to the facts in this case, the courts below held that while Lucent presented "little, if any, direct evidence of infringement," App. 23a, *see* App. 93a-94a, "Lucent introduced sufficient circumstantial evidence for the jury to conclude that Microsoft customers actually used the software to carry out the method steps of the '356 patent," App. 94a; *see* App. 24a-25a. To be sure, the Federal Circuit candidly noted that, in its view, the evidence was "just barely sufficient"—but such candor does not undermine its or the district court's determination of sufficiency. Indeed, the Federal Circuit ultimately agreed with Lucent that "'Microsoft not only designed the accused products to practice the claimed invention, but also instructed its customers to use the accused products in an infringing way.'" App. 24a. That circumstantial evidence, the court held, "was just adequate to permit a jury to find that at least one other person within the United States during the relevant time period, other than the expert, had performed the claimed method." *Id.* While the court also noted that Lucent's expert testified that he and his wife had used other accused software in an infringing manner, and opined that "[i]t's hard to imagine that we're the only two people in the world that ever used it," *Id.*, that observation was neither critical to the Federal Circuit's ruling, nor even referenced in the district court's ruling.

Microsoft attacks this portion of the Federal Circuit's opinion on two grounds. *First*, Microsoft claims that the Federal Circuit erred by creating a "new" rule "that speculative testimony" provides a sufficient evidentiary basis to support a jury verdict.

But, of course, the Federal Circuit made no such new rule, nor did it purport to do so. Rather, even accepting Microsoft's characterization, the court merely noted the expert's testimony in passing before moving on to find that "the jury reviewed evidence relating to the extensive sales of Microsoft products and the dissemination of instruction manuals for the Microsoft products," and was entitled to rely on that evidence to infer direct infringement. App. 24a (citing *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261 (Fed. Cir. 1986)). This circumstantial evidence of infringement, the court held, provided a sufficient basis for the jury to have "reasonably concluded that, sometime during the relevant period from 2003 to 2006, more likely than not one person somewhere in the United States had performed the claimed method using the Microsoft products." App. 25a. In any event, however sliced, Microsoft is simply attacking the lower court's evaluation of the specific evidence in this case, and does not present an issue warranting this Court's discretionary review.

Second, Microsoft criticizes the court of appeals for "quot[ing] *Lucent's brief on appeal*," Pet. 17 (emphasis in original), and asserts that "the arguments of counsel are simply not evidence," *id.* (quoting *United States v. Sandini*, 888 F.2d 300, 311 (3d Cir. 1989)). That argument amounts to no more than an attack on the court's writing style. As the opinion makes clear, the Federal Circuit held that the circumstantial evidence of infringement identified in Lucent's brief below, not the argument of counsel, was sufficient to support the jury's verdict of infringement. *See* App. 23a. And that brief

pointed the court to evidence that was sufficient to support a finding of direct infringement. *See* Lucent Fed. Cir. Resp. Br. at 21 (citing JA44258-59; JA44277-79; JA07443; JA15763-67; JA44237-81; JA07801; JA15768-69; JA15775-85; JA15961-6005; JA16016-177; JA16369-413; JA45040-68; JA66710-11; JA66707-09). That the court quoted from Lucent's brief to express its agreement with Lucent's assessment of that evidence in no way cheapens the court's holding. Thus, Microsoft's argument that the court of appeals somehow created a "new and unique" standard for post-trial review of jury verdicts of infringement by "conclud[ing] that speculative testimony and lawyer argument can provide a sufficient evidentiary basis to support a jury verdict," Pet. 11, borders on specious.

Similarly, Microsoft criticizes the court of appeals for failing to provide record citations for the circumstantial evidence that it identified. *See* Pet. 17. But a court of appeals opinion is not a math assignment for this Court to grade, and the court of appeals is not required to "show its work." Courts need not provide pin cites for every piece of evidence on which they rely. Nevertheless, the evidence on which the Federal Circuit relied is easily identifiable by reference to the briefs filed below. *See* Lucent Fed. Cir. Resp. Br. at 21 (citing JA44258-59; JA44277-79; JA07443; JA15763-67; JA44237-81; JA07801; JA15768-69; JA15775-85; JA15961-6005; JA16016-177; JA16369-413; JA45040-68; JA66710-11; JA66707-09). The portion of Lucent's brief from which the Federal Circuit quoted provides extensive citations to the circumstantial evidence of infringement referenced by the court, including trial

testimony, deposition testimony of Microsoft employees shown at trial, and various exhibits explaining how the accused products work. Likewise, the district court's decision—which the Federal Circuit was affirming—extensively documented the evidence of direct infringement, including "evidence in the form of instruction and encouragement offered via tutorials, help files, web pages, manuals, promotional materials, the testimony of those familiar with these materials, and other sources." App. 94-95a (providing record citations to excerpts of Microsoft Money's user's guides, excerpts of Microsoft Outlook help files, and the user's guide for Microsoft Windows Mobile product). Like the court of appeals, the district court held that "[a] reasonable jury could have reviewed this extensive record and concluded, based on the circumstantial evidence, that there was direct infringement." App. 95a. Thus, the manner in which the court of appeals crafted its opinion provides no basis for further review in this Court.

2. Next, Microsoft challenges the lower courts' evaluation of the record evidence. *See* Pet. 17. In short, Microsoft argues that the Federal Circuit and the district court should have read the record evidence differently. Specifically, Microsoft asserts that the court of appeals erred in finding there was sufficient evidence that Microsoft "instructed its customers to use the accused products in an infringing way," App. 24a, because, according to Microsoft, the instruction manuals Lucent cited in its brief on appeal merely "dealt with the use of Outlook generally—not use of the allegedly infringing date-

picker," Pet. 17. But that is simply a quarrel with how to read the record.

Microsoft then argues that the Federal Circuit erred in holding that Microsoft's manuals could constitute circumstantial evidence of infringement because "[g]eneric instruction manuals that do not teach an infringing use are not circumstantial evidence of direct infringement by users." Pet. 17 (citing *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1363 (Fed. Cir. 2006); *ArthroCare Corp. v. Smith & Nephew, Inc.*, 406 F.3d 1365, 1377 (Fed. Cir. 2005)). But that assumes the conclusion that the manuals did not teach an infringing use—a conclusion rejected by the jury and the courts below. In any event, as Microsoft's reliance on Federal Circuit precedent demonstrates, Microsoft is not mounting a legal challenge to the legal principles at play. Instead, Microsoft asks this Court to engage in nothing more than classic fact-bound error correction. Because "[a] court of law, such as this Court" is not "a court for correction of errors in fact finding," *Graver Tank*, 336 U.S. at 275, the petition should be denied.

3. Finally, unhappy with the application of settled law to the facts here, Microsoft launches into an extended discussion of cases and issues wholly irrelevant to this case. *See* Pet. 18-25. Microsoft first directs a broadside on the jury system itself. *See* Pet. 18-19 ("There is strong evidence that the patent litigation process already contains a strong jury bias in favor of patentees."); *see also id.* at 18-20. But as this charge makes clear, it is Microsoft—not the courts below—that would create out of whole

cloth a new standard for post-judgment relief from jury verdicts in patent cases. *See e.g.* Pet. 20 (asserting that this "known bias in favor of patentees in jury trials" should "raise the focus of reviewing courts"). There is, of course, no basis in law or logic for the Court to invent such a standard, but even if there were, this case presents an especially poor vehicle where this issue was not even presented to the court of appeals. Indeed, this Court's "traditional rule" precludes a grant of certiorari "when the question presented was not pressed or passed upon below," *United States v. Williams*, 504 U.S. 36, 41 (1992) (internal quotations omitted), precisely because the Court "sits as a court of review," not a court of first impression, *Duignan v. United States*, 274 U.S. 195, 200 (1927).

Microsoft also attempts to cobble together an intra-circuit split by citing a string of irrelevant cases involving review of *damages awards*. *See* Pet. 22-24. Microsoft claims that these cases represent "inconsistent rulings from different panels of the Federal Circuit on questions of damages," *id.*, but fails to explain how these cases, or this alleged division, has any relevance to this case. As previously discussed, in this case the Federal Circuit *vacated the damages award* and remanded to the district court for a new damages trial. *See* App. 69a-71a. Thus there are no damages-related issues before this Court, and Microsoft's discussion of those cases is a distracting aside that in no way bolsters its case for certiorari.

II. The Federal Circuit Did Not Create A New Standard For Reviewing Jury Verdicts In Patent Cases And Any Challenge Should Have Been Presented To That Court In The First Instance.

Microsoft's contention, that the Federal Circuit "distort[ed]" "post-judgment standards" by denying its request for a new trial on infringement, presents no basis for this Court to grant certiorari in this case. The Federal Circuit neither invented nor imposed a new standard for granting a new trial. Rather, the Federal Circuit recognized that Ninth Circuit law applied in reviewing both the denial of the motion for judgment as a matter of law and the denial of the motion for a new trial. *See* App. 6a (citing *Pavao v. Pagay*, 307 F.3d 905 (9th Cir. 2002)). And even if the court of appeals had misstated or misapplied Ninth Circuit law—which it did not—the Court should not grant certiorari to engage in error correction over an issue that petitioner failed to raise below.

1. In affirming the denial of judgment as a matter of law, the court of appeals concluded that "substantial evidence" supports the jury's verdict that Microsoft infringed the Day patent. *See* App. 26-27a. In so doing, the Federal Circuit pointed to two descriptions of the substantial evidence standard from this Court's cases, stating that "Lucent's circumstantial evidence of infringement was 'something less than the weight of the evidence,' *Consolo v. Fed. Maritime Comm'n*, 383 U.S. 607, 620 (1966), yet it was just 'more than a mere scintilla,' *Consol. Edison Co. v. NLRB*, 305 U.S. 197 (1938)." App. 26-27a (parallel citations omitted).

To be sure, a jury verdict may be set aside, "even though supported by substantial evidence," where the court determines that "the verdict is *contrary* to the clear weight of the evidence, or is based upon evidence which is false, or to prevent, in the sound discretion of the trial judge, a miscarriage of justice." *Moist Cold Refrigerator Co. v. Lou Johnson Co.*, 249 F.2d 246, 256 (9th Cir. 1957) (emphasis added). But neither the district court nor the Federal Circuit (which was reviewing the district court's denial of a new trial for an abuse of discretion) made any such finding in this case.

Unable to present a credible challenge to the Federal Circuit's actual holding in this case, Microsoft sets up a straw man to knock down instead. Microsoft argues that by stating that the circumstantial evidence of infringement was "something less than the weight of the evidence" but "just 'more than a mere scintilla,'" in the context of affirming the denial of judgment as a matter of law, the Federal Circuit really meant that the infringement verdict was "contrary to the clear weight of the evidence," and thus should be overturned. *See* Pet. 25. Hence, Microsoft asserts, the Federal Circuit should have held that the district court abused its discretion in denying Microsoft a new trial on infringement. *See* Pet. 25-26.

Microsoft misreads the Federal Circuit's opinion. The fact that a court determines that the evidence barely clears the "substantial evidence" hurdle does not compel a determination that it is against the weight of the evidence, thus requiring a new trial. In other words, while the minimal substantial evidence

necessary to uphold a jury verdict falls somewhere between "the weight of the evidence" and "more than a mere scintilla," the question of whether that verdict is nonetheless actually "*contrary* to the weight of that evidence," is a different inquiry. Of course the Federal Circuit knew and applied the standard for granting a new trial; indeed, *it granted petitioner a new trial on damages*, applying the very same standards that it used in reviewing the challenge to liability. App. 36a.

In support of its straw man argument, Microsoft criticizes the Federal Circuit for applying the substantial evidence standard as articulated in *Consolo* and *Consolidated Edison* because those cases involved review of agency decisions. *See* Pet. 25-26. But courts routinely apply the substantial evidence standard as it is described in those cases to jury verdict challenges. Indeed, it is well established that the substantial evidence necessary to support a jury verdict is "something less than the weight of the evidence, and is defined as such relevant evidence as a reasonable mind might accept as adequate to support a conclusion, even if different conclusions also might be supported by the evidence." *Bangert Bros. Constr. Co. v. Kiewit W. Co.*, 310 F.3d 1278, 1292 (10th Cir. 2002); *see also Webco Indus., Inc. v. Thermatool Corp.*, 278 F.3d 1120, 1128 (10th Cir. 2002); *Duncan v. Colo. Dep't of Corr.*, 15 Fed. App'x 730, 733 (10th Cir. 2001); *Dupuis v. Toledo*, No. 96-30191, 1997 WL 367452, at *2 (5th Cir. June 9, 1997); *Gann v. Fruehauf Corp.*, 52 F.3d 1320, 1326 (5th Cir. 1995); *Knowlton v. Greenwood Indep. Sch. Dist.*, 957 F.2d 1172, 1178 (5th Cir. 1992); *Gibraltar Sav. v. LDBrinkman Corp.*, 860 F.2d 1275, 1297-98

(5th Cir. 1988). And, it is equally established that the substantial evidence necessary to uphold a jury verdict "is more than a mere scintilla." *State of Washington v. United States*, 214 F.2d 33, 41 (9th Cir. 1954) (quoting *Consol. Edison*, 305 U.S. at 229); *see also U.S. Anchor Mfg., Inc. v. Rule Indus., Inc.*, 7 F.3d 986, 993 (11th Cir. 1993); *Johnson v. Hugo's Skateway*, 949 F.2d 1338, 1343-44 (4th Cir. 1991); *Nat'l Fire Ins. Co. v. Housing Dev. Co.*, 827 F.2d 1475, 1482 (11th Cir. 1987); *Owen v. Kerr-McGee Corp.*, 698 F.2d 236, 238 (5th Cir. 1983); *J & J Farms, Inc. v. Cargill, Inc.*, 693 F.2d 830, 834-35 (8th Cir. 1982); *Bennett v. D.C. Transit Sys., Inc.*, 298 F.2d 325, 326 (D.C. Cir. 1962). Thus, Microsoft's assertion that the Federal Circuit somehow effected an "inappropriate modification of generally applicable procedural rules in patent cases" by citing *Consolo* and *Consolidated Edison* is mistaken at best.

2. Moreover, even if the Federal Circuit misstated or misapplied the standards for judgment as a matter of law or for a new trial (which it did not), the Court should not grant certiorari to correct an alleged error that was never raised below. Microsoft denied the Federal Circuit an opportunity to correct the alleged error in the application of Ninth Circuit law by failing to raise this issue in its petition for rehearing en banc, and did not even seek panel rehearing at all. Instead, Microsoft's petition for rehearing en banc was limited to challenging the Federal Circuit's invalidity precedents, an issue not presented in Microsoft's petition to this Court. Thus, even assuming that the Federal Circuit had imposed a new standard for resolving post-trial motions, the

Court's traditional practice of requiring that an issue be presented or passed on below before undertaking consideration requires denial of the writ.

Denial is all the more warranted here where the court below did not purport to do anything other than apply settled law to the unique facts of this case. The alleged misstatement or misapplication of the well-settled standards for resolving post-trial motions presents no occasion for this Court's intervention. Thus, Microsoft's discussion of unrelated cases, such as *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) and *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), where the Federal Circuit explicitly announced that it was creating or applying a patent-specific rule, is wholly inapposite. *See* Pet. 20-21. Indeed, in each of the cases that Microsoft cites for the proposition that "this Court has reversed Federal Circuit decisions applying patent law doctrines that improperly expanded the scope of patent rights," Pet. 21 n.5, before this Court granted certiorari, the Federal Circuit had been given the opportunity to reconsider the specific issue in the first instance, either in a petition for rehearing or in a series of cases squarely presenting the same issue. *See Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (issue presented in combined petition for rehearing or rehearing en banc, Nos. 05-1261 et al., 2006 WL 2351226 at *13 (Fed. Cir. July 21, 2006)); *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007) (issue presented in combined petition for rehearing or rehearing en banc, No. 04-1285, 2005 WL 4838014 at *1 (Fed. Cir. Sept. 15, 2005)); *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 407 (2007) (noting that

Federal Circuit had applied that court's standard approach as demonstrated by *Al-Site Corp. v. VSI Int'l, Inc.*, 174 F.3d 1308, 1323-24 (Fed. Cir. 1999)); *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193, 195, 208 (2005) (issue presented in combined petition for rehearing or rehearing en banc, Nos. 02-1052, 02-1065, 2003 WL 24033437 at *5 (Fed. Cir. July 21, 2003)). It would be nothing short of extraordinary for this Court to address a claim of error that was not presented in a petition for rehearing below, particularly where the Federal Circuit was explicitly applying the law of the regional circuit, and did not purport to apply or create patent-specific doctrine.

III. Microsoft's Petition Is Interlocutory And, As Such, Should Be Denied.

Finally, Microsoft's petition asks the Court to engage in interlocutory review. That "alone furnishe[s] sufficient ground for the denial of the application." *Hamilton-Brown Shoe Co.*, 240 U.S. at 258; *see also DTD Enters., Inc. v. Wells*, 130 S. Ct. 7, 8 (2009) (Kennedy, J. joined by Roberts, C.J., and Sotomayor, J.) (concurring in denial of certiorari because "the petition is interlocutory"); *Bhd. of Locomotive Firemen & Enginemen v. Bangor & Aroostook R.R. Co.*, 389 U.S. 327, 328 (1967) (per curiam) (denying certiorari because the case was "not yet ripe for review by this Court" where the circuit court had remanded to district court). "In the absence of clear and explicit authorization by Congress, piece-meal appellate review is not favored, and this Court above all others must limit its review of interlocutory orders." *Goldstein v. Cox*, 396 U.S.

471, 478 (1970) (internal citations omitted). Far from presenting any reason for this Court to make an exception to its established practice of denying review of interlocutory orders, Microsoft hardly acknowledges the interlocutory nature of this petition. Absent exceptional circumstances, which petitioner has not even attempted to identify, there is no basis for this Court to depart from its ordinary practice.

CONCLUSION

For the foregoing reasons, the Court should deny the petition for a writ of *certiorari*.

Respectfully submitted,

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